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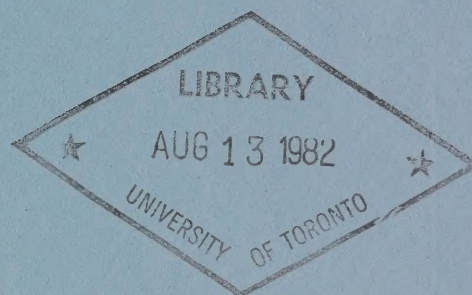
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NATIONAL ENERGY BOARD
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REASONS FOR DECISION

In the Matter of the Application under
Part IV of the National Energy Board Act
(Tolls Application)

of



TransCanada PipeLines Limited

July 1982

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2 National Energy Board

3 Reasons for Decision

In the Matter of the Application Under
Part IV of the National Energy Board Act
(Tolls Application)

of

TransCanada PipeLines Limited
July 1982

Table of Contents, page (v), Appendix V, should read as follows:

- V Weighted Average Cost of Debt Capital
 for the Test Year Ending 31 July 1983.





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NATIONAL ENERGY BOARD

REASONS FOR DECISION

In the Matter of the Application Under
Part IV of the National Energy Board Act
(Tolls Application)

OF

TRANSCANADA PIPELINES LIMITED

July 1982

Ce rapport est publié
séparément dans les
deux langues officielles.

NATIONAL ENERGY BOARD

IN THE MATTER of the National Energy Board Act and the Regulations made thereunder; and

IN THE MATTER OF an application by TransCanada PipeLines Limited for certain orders respecting tolls under Sections 50, 52, and 53 of the National Energy Board Act and for certain orders under Section 53 of the Petroleum Administration Act, filed with the Board under File No. 1562-T1-15.

Heard at Ottawa, Ontario on 11, 12, 13, 14, 17, 18, 19, 20, 21, 25 and 26 May 1982, and 2 and 3 June 1982.

BEFORE:	J.R. Hardie	Presiding Member
	R.F. Brooks	Member
	J.L. Trudel	Member

APPEARANCES:

John H. Francis, Q.C.)	for TransCanada PipeLines Limited
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R.B. Cohen)	
John B. Ballem, Q.C.	(for Canadian Petroleum Association
	(and
	(the Independent Petroleum Association of Canada
Peter C. Thompson, Q.C.		for Industrial Gas Users Association
Sheila McAllister		for Consolidated Natural Gas Limited
James H. Smellie		for Dome Petroleum Limited
Jean-Marc Fortier	)	for Gaz Inter-Cité Québec Inc.
Yvon Brisson)	
Michael Peterson	)	for Gaz Métropolitain, inc.
Carl Mercier)	
Peter F. Scully	(	for Greater Winnipeg Gas Company
		and
	(	Northern and Central Gas Corporation
W.J. Hartnett		for Imperial Oil Limited
J.J. Marshall	)	for Norcen Energy Resources
G.V. Kenda	)	Limited

(ii)

John Hopwood, Q.C.		for NOVA, An Alberta Corporation
Michael S. Geller		for Saskatchewan Power Corporation
Nicolas Roy)	for la Société québécoise
René Bédard)	d'initiatives pétrolières
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L. Leclerc)	
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Linda Thomas)	Ontario
Jean Giroux		for le Procureur général du Québec
Jeffrey King		for Westcoast Transmission Company Limited
T.W. Kirk		for Inter-City Gas Corporation
S.K. Fraser)	National Energy Board
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TABLE OF CONTENTS

	<u>Page</u>
Recital and Appearances	(i)
Table of Contents	(iii)
Abbreviations and Definitions	(vi)
1. THE APPLICATION	1 - 1
2. RATE BASE	2 - 1
GROSS PLANT	2 - 3
(i) Unauthorized Capital Projects	2 - 3
(ii) Landscaping	2 - 3
(iii) South Nation River Crossing	2 - 4
(iv) AFUDC and Capitalized Overhead	2 - 5
ACCUMULATED DEPRECIATION	2 - 6
WORKING CAPITAL	2 - 6
(i) Cash	2 - 6
(ii) Materials and Supplies	2 - 9
AVERAGE DEFERRED INCOME TAXES	2 - 9
OTHER DEFERRED COSTS	2 - 10
3. RATE OF RETURN	3 - 1
(i) Inclusion of GPUC in Capitalization	3 - 2
(ii) Funded Debt	3 - 3
(iii) Prefunded Debt	3 - 4
(iv) Preferred Share Capital	3 - 5
(v) Common Equity	3 - 7
(a) Common Equity Ratio	3 - 7
(b) Rate of Return on Common Equity	3 - 10
(vi) Rate of Return on Rate Base	3 - 13

	<u>Page</u>
4. INCOME TAXES	4 - 1
(i) "Normalized" versus "Flow-through" Tax Treatment	4 - 1
(ii) "Stand-Alone" versus "Non-Stand-Alone" Tax Treatment	4 - 6
(iii) Corporate Surtax	4 - 7
(iv) Specific Items to be Included in the Tax Allowance Calculation	4 - 8
(a) Non-Allowable Amortization of Debt Discount and Expense	4 - 8
(b) Tax Credit for Canadian Gas Research Institute Contributions	4 - 8
(c) Reduction in Taxes Payable to the Government of Ontario Due to Additional Capital Cost Allowance	4 - 9
(v) Flow-through Tax Calculation	4 - 10
5. TRANSPORTATION COST OF SERVICE	5 - 1
TRANSMISSION BY OTHERS	5 - 2
(i) Great Lakes Fuel Adjustment	5 - 2
(ii) TQM Cost of Service	5 - 3
(iii) Deferral Adjustment	5 - 5
(a) Deferred Amount	5 - 5
(b) Accounting Treatment	5 - 5
(iv) Steelman Gas	5 - 5
OPERATION AND MAINTENANCE	5 - 6
(i) Lost and Unaccounted for Gas	5 - 6
(ii) Cost of Gas Used in Operations	5 - 7
(iii) Staff, Salaries and Employee Benefits	5 - 7
(iv) Amortization of Northern Project Advances	5 - 10
(v) Allocation of Administrative and General Expenses to Non-Jurisdictional Functions	5 - 10
(vi) Transmission and Departmental Expenses	5 - 12
(vii) Excise Tax on Company Used Gas	5 - 14
(a) Deferred Amount for Period 1 January 1982 to 31 July 1982	5 - 14
(b) Treatment of Future Changes in Excise Tax Rate	5 - 17
(viii) Adjustment of Indirect Charges Allocated to Alberta	5 - 18
DEPRECIATION	5 - 18

	<u>Page</u>
OTHER OPERATING INCOME	5 - 18
MISCELLANEOUS REVENUE	5 - 18
6. TOLL DESIGN AND TARIFF MATTERS	6 - 1
TOLL DESIGN	6 - 1
(i) Tolls for AOI Service	6 - 1
(ii) ACQ Differential	6 - 2
(iii) T-Service Toll	6 - 3
TARIFF MATTERS	6 - 4
(i) Extension of Eastern Delivery Area	6 - 4
(ii) Developmental Sales	6 - 5
(iii) Sales Meter Station Charges	6 - 7
APPROVED TOLLS	6 - 7
7. DISPOSITION	7 - 1

APPENDICES

- I Hearing Order RH-3-82
- II Order No. TG-2-82
- III Order No. TG-3-82
- IV Comparison of Components of Rate of Return
 Previously Authorized, Applied For and
 Approved
- V Weighted Average Cost of Funded Debt
 Capital For the Test Year Ending
 30 June 1982
- VI Functional Distribution and Classification
 of Authorized Cost of Service

ABBREVIATIONS AND DEFINITIONS

ACQ	- Annual Contract Quantity
AFUDC	- Allowance for Funds Used During Construction
ANG	- Alberta Natural Gas Company Ltd.
AOI	- Authorized Overrun Interruptible
Applicant	- TransCanada PipeLines Limited
Board	- National Energy Board
CO	- Construction Order
Conference Board	- Conference Board of Canada
Conservation Authority	- The South Nation River Conservation Authority
Consolidated	- Consolidated Natural Gas Limited
Consumers' Gas	- The Consumers' Gas Company Ltd.
CCA	- Capital Cost Allowance
CD	- Contract Demand
Company	- TransCanada PipeLines Limited
CPA	- Canadian Petroleum Association
CPI	- Consumer Price Index
DCF	- Discounted Cash Flow
Dome	- Dome Petroleum Limited
Excise Tax	- Natural Gas and Gas Liquids Tax and Canadian Ownership Special Charge
FDPS	- First Date Placed in Service
Gaz Métro	- Gaz Métropolitain, inc.
GIC	- Gaz Inter-Cité Québec Inc.
GJ	- Gigajoule (10^9 joules)
GPIS	- Gas Plant in Service
GPUC	- Gas Plant Under Construction

Great Lakes	- Great Lakes Gas Transmission Company
IGUA	- Industrial Gas Users Association
Imperial Oil	- Imperial Oil Limited
IPAC	- Independent Petroleum Association of Canada
MJ	- Megajoule (10^6 joules)
MMBtu	- Million British thermal units
M & S	- Materials and Supplies
NEB	- National Energy Board
NEB Act	- National Energy Board Act
Norcen	- Norcen Energy Resources Limited
Northern and Central Gas	- Northern and Central Gas Corporation
NOVA	- NOVA, An Alberta Corporation
PAA	- Petroleum Administration Act (as of 7 July 1982, the Energy Administration Act)
ProGas	- ProGas Limited
PS	- Peaking Service
Saskatchewan Power	- Saskatchewan Power Corporation
SGS	- Small General Service
SOQUIP	- la Société québécoise d'initiatives pétrolières
Steelman Gas	- Steelman Gas Limited
Sulpetro	- Sulpetro Limited
TCPL Resources	- TCPL Resources Ltd.
TQM	- Trans Québec & Maritimes Pipeline Inc.
TransCanada, TCPL	- TransCanada PipeLines Limited
TWS	- Temporary Winter Service
Union Gas	- Union Gas Limited

- July 1978 Reasons for Decision - "National Energy Board Reasons for Decision in the Matter of the Application under Part IV of the National Energy Board Act (Rates Application) of TransCanada PipeLines Limited - July 1978."
- August 1980 Reasons for Decision - "National Energy Board Reasons for Decision in the Matter of the Application under Part IV of the National Energy Board Act (Rates Application) of TransCanada PipeLines Limited - August 1980."
- August 1981 Reasons for Decision - "National Energy Board Reasons for Decision in the Matter of the Application under Part IV of the National Energy Board Act (Rates Application) of TransCanada PipeLines Limited - August 1981."
- April 1982 Reasons for Decision - "National Energy Board Reasons for Decision in the Matter of the Application under Part IV of the National Energy Board Act (Tolls Application) of Alberta Natural Gas Company Ltd. - April 1982."

CHAPTER 1

THE APPLICATION

By an application dated 25 January 1982, as amended by an application dated 16 April 1982, TransCanada PipeLines Limited ("TransCanada", "TCPL", "the Applicant", "the Company") applied to the Board under Sections 50, 52, and 53 of the National Energy Board Act ("NEB Act") for orders fixing the just and reasonable tolls TransCanada may charge for or in respect of transportation of gas sold by the Company, for transportation services rendered for Saskatchewan Power Corporation ("Saskatchewan Power"), Consolidated Natural Gas Limited ("Consolidated"), Gaz Métropolitain, inc. ("Gaz Métro"), ProGas Limited ("ProGas") and Sulpetro Limited ("Sulpetro") and disallowing any existing tariffs or tolls or portions thereof that are inconsistent with the just and reasonable tolls so fixed, effective 1 August 1982.

TransCanada also applied under Section 53 of the Petroleum Administration Act ("PAA"), (as of 7 July 1982, the Energy Administration Act) and the Regulations made pursuant to Part III of that Act, for Special and General Orders of the Board approving the price to be paid by the Company to acquire gas for removal from the Province of Alberta and revoking any previous Orders inconsistent therewith, effective 1 August 1982.

The application contained a request for an Order for accounting and rate-making purposes which would allow the differences between (a) the actual charges included in the Applicant's Cost of Service under the Account "Transmission by Others" in respect of the Trans Québec & Maritimes Pipeline Inc. ("TQM") facilities less fixed charge revenues received in respect

of sales by the Applicant to TQM for resale and (b) the projected charges for Transmission by Others in respect of TQM less the fixed costs allocated to TQM sales, together with carrying charges, to be included in TransCanada's deferral clause for Transmission by Others, with the balance, including carrying charges in the deferred account, to be amortized from time to time through adjustments in future tolls.

TransCanada also requested an Order, for accounting and rate-making purposes, permitting the deferral with carrying charges of excise taxes in excess of those employed to develop the tolls proposed in the application with respect to gas used by the Applicant and permitting those deferred amounts together with carrying charges to be amortized from time to time through adjustments in future tolls.

The application contained proposed tolls based on TransCanada's cost of service employing a base period of the 12 months ended 30 September 1981 and a test period of 12 months commencing 1 August 1982. The applied-for cost of service included a rate of return on rate base of 14.31 percent, which is an increase from the rate of return of 12.63 percent authorized by the Board effective 1 September 1981. Further details of the application are set out in the following chapters of this report.

By Order No. RH-3-82, the Board set down for public hearing that part of the application made under Part IV of the NEB Act relating to TransCanada's tolls and tariffs. In the Order the Board directed TransCanada, as part of its application, to address the issue of whether the continued use of the normalized

method of calculating the allowance for income tax in the Applicant's tolls was warranted in light of the present and projected circumstances relating to the supply, marketing and pricing of natural gas.

The hearing commenced in Ottawa on 11 May 1982 and concluded on 3 June 1982. By letters dated 3 and 17 June 1982, TransCanada filed with the Board and served on parties of record its final revisions to its application incorporating changes which arose in the course of the hearing.

CHAPTER 2

RATE BASE

TransCanada's proposed rate base, as filed, was the average projected utility investment (exclusive of Alberta) for the test period 1 August 1982 to 31 July 1983. For the reasons indicated hereafter, the Board has adjusted the test year rate base in the following manner:

Rate BaseTest Year 1 August 1982 to 31 July 1983

	<u>Application</u> ⁽¹⁾	<u>Application As Revised</u> ⁽²⁾	<u>NEB Adjustments</u>	<u>Authorized By NEB</u>
Gross Plant	\$3,044,976,871	\$3,032,908,980	\$(3,752,637)	\$3,029,156,343
Accumulated Depreciation	(623,496,205)	(623,476,969)	54,556	(623,422,413)
Contributions in Aid of Construction	(2,685,651)	(2,685,651)	-	(2,685,651)
Net Gas Plant	2,418,795,015	2,406,746,360	(3,698,081)	2,403,048,279
Working Capital	71,103,379	72,447,705	(1,342,717)	71,104,988
Average Deferred Income Taxes	(95,136,020)	(99,224,273)	17,803,914	(81,420,359)
Other Deferred Costs	(19,325,071)	(17,284,972)	(2,770) ⁽³⁾⁽⁴⁾	(17,287,742)
TOTAL RATE BASE	<u>\$2,375,437,303</u>	<u>\$2,362,684,820</u>	<u>\$ 12,760,346</u>	<u>\$2,375,445,166</u>

1) Application dated 25 January 1982 as updated by TCPL application dated 16 April 1982.

(2) Application as revised by TCPL letters dated 3 and 17 June 1982 to incorporate various changes based on matters raised during the hearing, including the deletion of facilities associated with the Emerson extension and other adjustments to gross plant as well as the increase in average deferred income taxes due to changes in net timing differences.

(3) Adjusted by an amount of \$411,500 for Transmission by Others relating to the TQM Cost of Service. (The average deferred amount for adjustment to Cost of Service as supplied to the Board by TCPL letter dated 17 June 1982.)

(4) Adjusted by an amount of \$526,154 for Excise Taxes. (The average deferred amount for adjustment to Cost of Service as supplied to the Board by TCPL letter dated 17 June 1982.)

TABLE I
NEB ADJUSTMENTS TO TRANSCANADA PLANT ADDITIONS

<u>Description</u>	<u>Unweighted Gross Plant Additions (1)</u>	<u>Weighted Gross Plant Additions (2)</u>	<u>Test Year Depreciation (3)</u>	<u>Average Accumulated Depreciation (4)</u>	<u>Adjustment to CCA</u>
Class "B" Meter Stations	\$ (1,211,000)	\$ (745,230)	\$ (24,725)	\$ (7,608)	\$ (30,000)
Class "C" Unapproved Items	(1,249,000)	(888,921)	(23,622)	(8,535)	(38,000)
South Nation River Crossing	(200,000)	(169,231)	(4,584)	(1,940)	(6,000)
AFUDC and Overhead					
(i) Decrease relating to CO's not yet approved by the Board	(153,482)	(104,054)	(2,840)	(972)	-
(ii) Decrease due to use of 4.80% instead of 4.77% as an AFUDC rate	-	(320,978)	(8,875)	(6,140)	-
(iii) Decrease due to change in rate of return from 14.31% to 13.88% (applied for vs. authorized)	-	(1,524,223)	(37,456)	(29,361)	-
(iv) Decrease due to mathematical error	-	-	(188,063)*	-	-
TOTAL	\$ (2,813,482)	\$ (3,752,637)	\$ (290,165)	\$ (54,556)	\$ (74,000)

(*) Error identified in Information Request, NEB, March 1982, request item 5(v),
page 2 of 3, revised 16 April 1982.

GROSS PLANT

TransCanada projected its gross plant for the test year to be \$3,032,908,980. The Board has adjusted this amount to \$3,029,156,343, the reduction of \$3,752,637 representing the weighted average cost of unapproved gross plant additions as shown in Table I, page 2-2.

i) Unauthorized Capital Projects

TransCanada included in its proposed rate base an amount totalling \$1,634,151 which represents the weighted gross plant additions in the test year for projects under Class B and C applications that have not yet been justified to the Board's satisfaction. As the Board does not normally permit the inclusion in rate base of projects which have not been approved under Part III of the NEB Act, the test year rate base has been adjusted to reflect the exclusion of this \$1,634,151 figure as outlined in Table I.

(ii) Landscaping

In its 1982 Class C Application, TransCanada included carryovers for landscaping at Stations 110 and 142 and for major landscaping at Stations 68, 75, and 86. In a letter dated 19 April 1982, the Board stated that it did not consider these particular projects to be appropriate for consideration under Part III of the NEB Act and, therefore, did not grant approval pursuant to Section 49 of the NEB Act. The Board subsequently informed TransCanada that it would rule on the proper treatment of the associated costs as part of the 1982 Toll Hearing.

The Board has accepted the major landscaping as a plant or property unit which may be capitalized. It therefore permits the inclusion of these landscaping costs in the rate base for the test year.

(iii) South Nation River Crossing

The lowering of TransCanada's pipelines where they cross the South Nation River was originally approved pursuant to Section 49 of the NEB Act under Order No. XGM-5-82 at an estimated cost of \$289,000. Subsequent to that approval, the South Nation River Conservation Authority ("Conservation Authority") finalized the design details and environmental specifications. The final plans involved a major change in the scope of work and resulted in an estimated cost increase to \$877,000 which was included in the applied for test year rate base. The Board received a letter dated 16 November 1981 from the Conservation Authority requesting that the Board, pursuant to Section 37 of the NEB Act, direct TCPL to lower its pipelines where they cross the South Nation River and to bear the costs of the relocation. The Conservation Authority maintained that the lowering of the pipelines was necessary to facilitate the river channel improvements proposed by the Conservation Authority. In correspondence with TransCanada subsequent to this hearing, the Conservation Authority agreed to undertake certain portions of the work, thereby reducing TransCanada's estimated cost to approximately \$677,000. The Board, by Order No. MO-7-82, has directed TransCanada, pursuant to Section 37 of the NEB Act, to carry out the work

and to bear the estimated cost of \$677,000 in respect of the pipeline lowerings. Accordingly, the Board has reduced the test year rate base to reflect the reduction of \$200,000, as outlined in Table I, page 2-2.

(iv) ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION ("AFUDC")
AND CAPITALIZED OVERHEAD

Unauthorized Class B and C Capital Projects and the adjustment to the South Nation River Crossing were excluded from the rate base as stated previously on pages 2-3 and 2-4. Accordingly, the respective amounts of AFUDC and capitalized overhead, test year depreciation expense and average accumulated depreciation have been adjusted to reflect these exclusions.

The Applicant calculated the AFUDC on the basis of 4.80 percent of gas plant in service ("GPIS") instead of 4.77 percent as indicated by the formula submitted in response to an information request. Accordingly, the Board has adjusted the respective amounts for AFUDC and capitalized overhead, the related test year depreciation expense and average accumulated depreciation as shown on Table I, columns 2, 3, and 4.

The Company applied for a rate of return of 14.31 percent which was used in its calculations of AFUDC. Since the Board has authorized a rate of return on rate base of 13.88 percent, the AFUDC rate has been adjusted accordingly.

The Board has also reduced test year depreciation expense by \$188,063 to correct for an error in the calculation of depreciation expense.

ACCUMULATED DEPRECIATION

TransCanada projected its average accumulated depreciation for the test year to be \$623,476,969. The Board, having reduced gross plant by \$2,813,482, has accordingly reduced average accumulated depreciation by \$54,556 as shown in Table I, column 4, page 2-2.

WORKING CAPITAL

The following table is a summary of the authorized working capital:

	<u>Application As Revised</u>	<u>NEB Adjustments</u>	<u>Authorized By NEB</u>
Cash	\$ 11,963,748	\$(1,342,717)	\$ 10,621,031
Materials and Supplies	25,194,727	-	25,194,727
Transmission Line Pack	31,503,431	-	31,503,431
Prepayments and Deposits	<u>3,785,799</u>	-	<u>3,785,799</u>
TOTAL	<u>\$ 72,447,705</u>	<u>\$(1,342,717)</u>	<u>\$ 71,104,988</u>

(i) Cash

In its application, TransCanada requested an amount equal to one-tenth of annual operating and maintenance expenses as an allowance for cash working capital. In support of its request the Applicant submitted a time lag study which indicated that the average lag between the date of issuance of cheques for its costs and the receipt of payment for its services is approximately 36 days.

The Applicant was questioned as to whether the "Days Outstanding" figure in its study was overstated because of the fact that a cheque may be issued on a particular date but not clear the bank until up to possibly a week later. In response, the Applicant stated that it is prudent management to ensure that sufficient funds are available to cover cheques when they are issued. In subsequent cross-examination, it was indicated that TCPL has, over the years, determined the average amount of time required for its cheques to be processed. TCPL stated that the gross amount of funds is not deposited into the account the same day the cheques are issued and that the time which elapses between issuance of cheques and deposit of funds is generally two or three days.

The Company's witnesses further stated that the vast majority of cheques issued in any one month are for the purchase of gas and that those cheques are collected by the payees and deposited on the due dates. The Applicant's witnesses stated that, because of the large amounts of these cheques, they are transferred directly through TCPL's account on the date of issue. Therefore, TransCanada argued that the three-day lag in the presentation of cheques represented only a small proportion of its disbursements. TransCanada did agree that the majority of cheques covering the operating and maintenance expenses of the pipeline (which is the basis for the calculation of the allowance) are dispatched by mail and that the delay between

the issuance of these cheques and the time they are charged to TransCanada's bank account amounts to an additional two or three days.

Upon consideration of the evidence adduced at the hearing, it is the Board's view that the time lag in the lead-lag study should be reduced by two or three days. As a result, the time lag study would yield results closer to one-eleventh, rather than one-tenth, of operating and maintenance expense.⁽¹⁾ In view of this, the Board has decided that the cash working capital allowance should be revised downwards to an amount equal to nine percent of operating and maintenance expenses net of gas-related costs.

Adjustments made by the Board to operation and maintenance expense result in an adjustment to cash working capital allowance calculated as follows:

Net Operation and Maintenance Expense (per Applicant)	\$119,637,478
Reduction in Salaries and Benefits	(2,383,187)
Reduction in Departmental Expenses	(551,158)
Reduction in Indirect Charges Allocated to Alberta	<u>128,212</u>
Net Operation and Maintenance Expense (per NEB)	<u>\$116,831,345</u>
1/11 of Net Operation and Maintenance Expense (per NEB)	\$ 10,621,031
1/10 of Net Operation and Maintenance Expense (per Applicant)	<u>\$ 11,963,748</u>
NEB ADJUSTMENT	<u>\$ (1,342,717)</u>

(1) One-tenth is arrived at by dividing 365 by 36 = 10.13; however, a two or three day downward revision would yield $365 \div 34 = 10.73$ or $365 \div 33 = 11.06$.

(ii) Materials and Supplies

The past rapid growth in Materials and Supplies ("M & S") was forecast to continue with an increase of approximately 36 percent occurring between the base year and the test year. Of this growth approximately 90 percent was forecast to be due to quantity increases and only approximately 10 percent was forecast to be due to inflation. During the hearing TransCanada reaffirmed its M & S policy that its level of inventory was designed to ensure the safety and security of the system. TransCanada confirmed that this level was not influenced by financial considerations.

The Board is concerned with the continuing rapid growth in Materials and Supplies but is prepared to accept the amount as applied for in the present application.

AVERAGE DEFERRED INCOME TAXES

As a result of the Board's decision to adopt the flowthrough method in calculating TransCanada's income tax allowance,⁽¹⁾ no current deferred taxes will be included in its tolls. The Board has also decided that no drawdown of previously accumulated deferred taxes should be made at this time. Accordingly, the amount of deferred taxes to be deducted in computing rate base shall consist of the balance of \$81,420,359 shown to be outstanding at the beginning of the test year in the Company's application.

(1) See Chapter 4, page 4-8 of this report.

OTHER DEFERRED COSTS

TransCanada included a revised amount of \$(17,167,924) as Other Deferred Costs for the test period. This total amount as adjusted by information supplied to the Board in a TCPL letter dated 17 June 1982, represents the total of the average unamortized deferred amounts for the test period comprised of the following:

Transmission by Others (Average Unamortized Deferrals)	\$(14,039,635)
Debt Service	(3,916,609)
Excise Tax (Average Unamortized Deferrals)	643,202
Other Deferred Items	<u>28,070</u>
TOTAL	<u>\$(17,284,972)</u>

An amount of \$2,770 has been deducted from rate base in the test year for deferred Excise Taxes to reflect one-half of the difference in carrying charges as calculated by TransCanada and as adjusted by the Board as set out on page 5-15 of this report.

CHAPTER 3

RATE OF RETURN

In its current application TransCanada submitted, as it had in its two previous toll applications, that a deemed capitalization should form the basis for the determination of its allowed rate of return on rate base.

The applied-for capitalization and corresponding individual and overall requested rates of return are shown below.

Deemed Average Capitalization and
Requested Overall Rate of Return
for the Test Year Ending 31 July 1983

	<u>Amount</u> (\$000)	<u>Ratio</u> %	<u>Rate</u> %	<u>Cost</u> <u>Component</u> %
Debt - Funded	1,606,084	60.63	13.65	8.28
- Prefunded	<u>(98,321)</u>	<u>(3.71)</u>	<u>13.65</u>	<u>(0.51)</u>
TOTAL DEBT CAPITAL	1,507,763	56.92	13.65	7.77
Preferred Share Capital	346,537	13.08	10.39	1.36
Common Equity	<u>794,700</u>	<u>30.00</u>	17.25	<u>5.18</u>
TOTAL CAPITALIZATION	<u><u>2,649,000</u></u>	<u><u>100.00</u></u>		<u><u>14.31</u></u>

The implementation of a deemed capitalization for rate-making purposes was first proposed by TransCanada and accepted by the Board in 1980, subsequent to the Company having embarked upon a major program of diversification.⁽¹⁾ A deemed capitalization

(1) Prior to 1980, TransCanada's actual corporate or consolidated capitalization had been used as the basis for establishing the rate of return which the company was allowed to earn on its rate base.

is a mechanism intended to ensure that the ratepayer is required to pay tolls which incorporate only those costs of capital used to finance utility assets. It is for this basic reason that the Board continues to approve the use of a deemed capitalization in relation to the Company's current application.

The total of the deemed capitalization comprises the sum of the average test year balances in respect of the Company's inside and outside Alberta rate bases and gas plant under construction.

The composition of this capitalization together with matters relating to the individual capital cost rates is discussed below.

(i) Inclusion of GPUC in Capitalization

In its previous toll application, TransCanada requested that gas plant under construction ("GPUC") be included in the deemed capitalization on the basis that it formed part of the Company's utility-related capital requirements and that the inclusion was necessary in order to permit recovery of the costs of financing this activity.

The Board, in designating the allowed rate of return on rate base as the AFUDC rate to be employed by the Company in capitalizing the costs of financing GPUC, permitted the inclusion of GPUC in the capitalization.

In general it appears to the Board that, while some degree of interrelationship may exist between the inclusion of GPUC in the capital structure and the recovery of construction financing costs, the essential purpose of the deemed

capitalization is to provide for the recovery of the financing costs associated with gas plant in service.

In the current case, however, the matter has been further complicated by the fact that the Company has chosen to prefund a portion of the debt required to finance its construction program. Under these particular circumstances the Board accepts the inclusion of GPUC in capitalization.

The Board will expect the Company in its next toll application to address this matter both within the context of, and independently of, the question of what it might view as an appropriate AFUDC rate.

(ii) Funded Debt

This element of the deemed capitalization consists of debt issued prior to TransCanada's diversification together with debt issued thereafter which has been specifically identified as utility-related. The Board, accordingly, approves the inclusion of this debt in the capital structure used for rate-making purposes.

In its current application, TransCanada has employed a net proceeds method of calculating the imbedded cost of this debt. The evidence indicates that this method has been applied by TransCanada in order to provide for the complete recovery of all costs incurred at the time of debt issuance. No intervenor objected to the introduction of this method and it is accepted by the Board.

The imbedded cost of funded debt also reflects one-half of the cost of certain amendments made during 1981 to the Company's Deeds of Trust and Mortgage. The evidence indicated that these serve both utility and non-utility purposes and that the Company's allocation of one-half of the costs to the utility operations is reasonable. The Board accepts the inclusion of these costs.

Based on the above findings, the Board accepts the applied for funded debt cost rate of 13.65 percent.

(iii) Prefunded Debt

This negative element⁽¹⁾ represents the portion of funded debt which has been raised in advance of the Company's actual cash requirements. The evidence indicates that the Company felt it advisable to prefund certain of its capital requirements due to the uncertainty surrounding the ready availability of debt capital in financial markets over the near term.

The propriety of offsetting the prefunded debt against the funded debt was not questioned except in respect of the cost rate which was to be used. On the one hand it was suggested that the offset might be made at the cost rate associated with the currently undertaken debt financings which gave rise to the prefunded situation. On the other hand it was alleged that

(1) Arithmetically, this element is derived by subtracting funded debt, preferred share capital and common equity capital from the total capitalization.

the prospective short-term rate of interest available to the Company on these excess funds formed a reasonable basis for the offset. A Company witness indicated that the rate used of 13.65, while happening to equal the imbedded average cost rate of both old and new debt, actually represented what he felt to be a reasonable approximation of such a short-term rate. Under the circumstances, the Board accepts the rate applied for by the Company.

(iv) Preferred Share Capital

This element of the applied for capitalization is made up of preferred share issues, the inclusion of which has been previously approved by the Board, as well as a new amount of preferred shares originally issued in connection with the Company's take-or-pay obligations.

The Company indicated that it is in the process of finalizing arrangements which will relieve it of the requirement to finance both its outstanding and future take-or-pay commitments. As a result of these arrangements, TransCanada will sell its take-or-pay rights to a company formed by a consortium of banks, thereby realizing an infusion of cash sufficient to repay its take-or-pay-associated debt and make rate base investments in an amount essentially equal to the outstanding take-or-pay-associated preferred shares.

The Company submitted that a higher preferred share ratio was appropriate in light of its substantial capital expansion

plans. It also considered it appropriate to reassign these preferred shares to the pipeline operations in view of the low cost of these shares as compared to the current and prospective cost of new preferred share financing.

The Company's expert witnesses agreed that the imbedded cost rate attaching to these shares was favorable and that their inclusion was also appropriate because TransCanada's preferred share ratio would thereby be raised to a level comparing favorably with the average of approximately 13 percent exhibited by other Canadian utilities.

While intervenors pointed out the tax cost implications of the additional preferred shares, no objections were raised to their inclusion per se. While cognizant of tax costs, the Board accepts the Company's assertions as to the appropriateness of the preferred share reassignment and, accordingly, approves their inclusion in the deemed capitalization.

The imbedded cost rate of 10.39 percent applied for in relation to the preferred share capital has been calculated in a manner consistent with previous applications. The Board accepts this rate.

(v) Common Equity

(a) Common Equity Ratio

As indicated at the outset of this Chapter, the use of a deemed capitalization for rate-making purposes began following TransCanada's diversification into non-utility activities. The dollar value of the elements of the deemed capitalization relating to funded debt and preferred shares currently represents the test year average amounts which are, or will be, actually outstanding and which can be, in effect, traced directly to the utility operations.

By contrast, the dollar value of the third element in the deemed capitalization, namely common equity, results from multiplying a common equity ratio by the total capitalization, which is predetermined as the sum of the inside and outside Alberta rate bases and GPUC. This dollar value is, thus, dependent upon the selection of an appropriate value for the common equity ratio.

There are three main factors governing the appropriateness of this ratio for rate-making purposes:

- considerations relating to the business risks faced by TransCanada's utility operations;
- considerations relating to maintaining an appropriate balance between the debt and equity elements of the deemed capitalization;
- considerations relating to maintaining an appropriate balance between the equity financing attributed to the utility through the deeming process and that portion of

such actual consolidated financing which is left to implicitly underpin the Company's non-utility operations.⁽¹⁾

The evidence indicates that no significant change in business risk has occurred since a 30 percent deemed common equity ratio was found to be appropriate by the Board in 1980.

With respect to the maintenance of an internal balance as between the debt and equity elements of the deemed capital structure, the Company asserted that, in view of its substantial capital expansion plans, a deemed common equity ratio of 30 percent remains appropriate. At the same time it also asserted that the preferred equity ratio should be increased within the same context of maintaining or bolstering its debt capital raising abilities by achieving capital structure comparability with other utilities with which it competes for capital. As outlined earlier, the Board has approved the requested increase in the preferred share equity ratio.

In relation to the third factor, intervenors expressed strong concern that the applied for deemed common equity ratio left an insufficient amount of common equity underlying the non-utility businesses, in view of the riskier nature of those businesses. Also, the testimony of one of the Company's expert witnesses indicated that a higher equity ratio was appropriate for the non-utility assets.

(1) This amount is obtained by subtracting the dollar value of the common equity deemed to apply to the utility operation from that actually existing in the Company's consolidated capital structure.

Generally the evidence of the parties, while offering no precision as to the level of equity which might be appropriate to the non-utility assets, indicated that a markedly higher level than that apparently in place was warranted so as to minimize or avoid the potential of cross-subsidization.⁽¹⁾

It is the Board's view that, in weighing the basic factors just described, the amount of common equity seen to implicitly underlie the non-utility assets acts as a cause for variation only to the extent that it is considered insufficient vis-à-vis the risks of those assets. In other words, the factors relating to business risk and an internal balancing between the debt and equity elements of the deemed utility capitalization would ordinarily predominate, provided that the actual capitalization of the total Company would allow that the remaining capitalization was not unrealistic for the non-utility business.

Having regard to all of the evidence relating to the three basic factors affecting the selection of an appropriate common equity ratio, and in particular the level of common equity capital implicitly underlying each of the Company's utility and non-utility operations, the Board finds a 28 percent common equity ratio to be appropriate for the test year.

(1) Cross-subsidization may be implied to the extent that the rate-payer is required to reimburse the Company in respect of equity capital which in fact is required for non-utility activities. Such a view may be taken when the deduction of the common equity contained in the deemed utility capitalization from that present in the consolidated capitalization yields a residual to support the non-utility operations which is apparently less than that which would ordinarily be required to finance such riskier operations on a stand-alone basis.

(b) Rate of Return on Common Equity

TransCanada has applied for a rate of return on common equity of 17.25 percent, as compared to the currently allowed rate of 15.75 percent. Evidence in support of this request was put forward by the Company's two expert witnesses. Both witnesses employed the comparable earnings and equity risk premium approaches in arriving at their recommendations. One witness also relied upon the Discounted Cash Flow ("DCF") technique.

The Canadian Petroleum Association ("CPA") presented evidence in this matter and recommended a 16.00 to 16.25 percent rate of return. In making this recommendation, the CPA's expert witness relied principally on the DCF technique accompanied by an analysis relating to the equity risk premium approach.

With respect to the comparable earnings approach, the Company's witnesses sought to estimate the fair rate of return applicable to TransCanada's utility operation by estimating the prospective returns available to Canadian industrial companies which in their view exhibited investment risks comparable to that of the utility operation. One witness stated that he projected prospective returns of such Canadian industrials,⁽¹⁾ in the first full year of economic recovery, in the range of 16 to 17 percent and that the lower end of this range assumed a slow recovery while the upper end reflected a strong recovery. In cross-examination this witness indicated that the recovery might possibly begin in the fourth

(1) Selected on the basis of stability of returns.

quarter of 1982. The second witness indicated that his selected industrials might be expected to earn 14 to 15 percent during 1982 and, assuming a significant economic recovery, in the order of 17 percent during 1983. As to the prospects for economic recovery, it is the Board's view that the evidence offered little or no indication that any significant economic recovery might be expected to occur during the test period.

In applying the equity risk premium approach⁽¹⁾ one Company witness, by estimating both normalized or longer term returns on utility bonds and preferred stock as well as the risk premium requirements in relation thereto, arrived at common equity cost estimates having midpoints falling in the 17 to 18 percent range. The prepared testimony of the Company's other expert witness indicated an apparent range of 19.50 to 20.50 percent, based on observations regarding the yield differentials that prevailed historically between the returns on average common equity of fourteen Canadian utilities and long-term Government of Canada Bonds.

The CPA witness, in noting that his DCF-based rate of return recommendation provided a smaller risk premium than has been experienced historically, cited the relatively recent shift in the relative risks of bonds and public utility common equity securities. He ascribed this shift to the effects of inflation on investors' bond-related return requirements. In

(1) An approach based on the theory that, to the extent common stock investments are riskier than fixed income security investments, the rate of return on the former should lie somewhat above the latter.

this connection, the witness also noted the apparent decline in the spread between the before-tax return requirements of equity securities and interest-bearing securities which has resulted from the dividend tax credit.

As mentioned previously, in estimating the cost of common equity capital to TransCanada's utility operations, the DCF technique was employed both by one of the Company's expert witnesses and the expert witness for the CPA. The Company's witness applied this technique to a group of industrials and Bell Canada, both of which in his view exhibited comparable investment risks to the utility operations. His estimate, based on these reference companies, fell in the range of 16.90 to 17.30 percent. The CPA witness applied the DCF technique to a somewhat different group of industrials, also selected on the basis of investment risk comparability with TCPL's utility operations. As noted earlier, his recommendation fell in the range of 16.00 to 16.25 percent.

The determination of an appropriate rate of return on common equity involves the use of methods which are necessarily indirect and subject to the exercise of judgement. Based upon its consideration of all of the evidence presented and having regard to its decision in respect of the common equity ratio, the Board finds 16.00 percent to be a fair and reasonable rate of return on the common equity.

(vi) Rate of Return on Rate Base

Based upon all of its findings in this case, the Board has decided that a rate of return on rate base of 13.88 percent is fair and reasonable. The derivation of this rate of return is provided below.

	<u>Amount</u> <u>(\$000)</u>	<u>Ratio</u> <u>%</u>	<u>Cost</u> <u>Rate</u> <u>%</u>	<u>Cost</u> <u>Component</u> <u>%</u>
Debt - Funded	\$1,606,084	60.31	13.65	8.23
- Prefunded	<u>(35,141)</u>	<u>(1.32)</u>	13.65	<u>(0.18)</u>
TOTAL DEBT CAPITAL	\$1,570,943	58.99	13.65	8.05
Preferred Share Capital	\$ 346,537	13.01	10.39	1.35
Common Equity	<u>745,686</u>	<u>28.00</u>	16.00	<u>4.48</u>
TOTAL CAPITALIZATION	<u>\$2,663,166</u> ⁽¹⁾	<u>100.00</u>		<u>13.88</u>

	<u>(\$000)</u>
(1) Rate Base Outside Alberta	\$2,375,445
Alberta Rate Base	53,161
Gas Plant Under Construction	<u>234,560</u>
Total	<u>\$2,663,166</u>

CHAPTER 4

INCOME TAXES(i) "Normalized" versus "Flow-through" Tax Treatment

In its application, TransCanada applied to have the Board continue to fix the allowance for income taxes to be included in its tolls on a normalized basis.

Both the Company and the CPA-IPAC led evidence in regard to the tax treatment to be afforded TransCanada for rate-making purposes. This action was taken in response to paragraph 11 of Order RH-3-82, which reads:

The Applicant shall, as part of its application, address the issue of whether the continued use of the normalized method of calculating the allowance for income tax in the Applicant's tolls is warranted in light of the present and projected circumstances relating to the supply, marketing and pricing of natural gas.

In connection with the tax methodology employed by TCPL during the early years of its operation, that is, the period prior to it being actively regulated by the Board, the Company of its own volition utilized the flow-through method of calculation and included no provision for income taxes in its tolls. In its first toll case before this Board, in 1971, the Company requested that the flow-through method be continued and the Board concurred with that request. In the 1975 TCPL toll hearing the method of calculating income tax was a major issue

and at that time the Board decided that the flow-through method should be continued. TCPL again raised the matter in the 1978 rate hearing at which time the Board considered that in light of the circumstances existing at that time it would be appropriate to calculate TCPL's tax allowance on a normalized basis.

In making that decision, the Board gave weight to essentially three considerations. One related to what constituted an appropriate method of cost recognition as this related to intergenerational equity among consumers over time. Another involved the potential effects of the tax treatment choice on producers and hence on their incentives to contribute to Canada's aim of energy self-reliance through exploration and development activity. A third consideration centered on the perceived implications that the tax treatment choice held with respect to TransCanada's ability to borrow funds for the expansion of its pipeline system at favorable rates, having regard to the importance of providing for the establishment of a transmission system which would enable the increased use of gas by Canadians.

The method of calculation of taxes has continued to be an issue raised by intervenors in hearings subsequent to 1978, but the Board continued to rule that, in the absence of any significant change in circumstances, it remained appropriate to calculate TCPL's tax allowance on a normalized basis.

The considerations raised in 1978, and enumerated above,

were addressed both directly and indirectly in the course of the present hearing and in light of the circumstances that have come to surround the present and expected future supply, marketing and pricing of natural gas.

As to the matter of the appropriate method of cost recognition for rate-making purposes, it is the Board's view that the considerations relevant to this issue vary with the nature of the particular item of expenditure being considered and with the overall circumstances surrounding the operations of the particular company being regulated. Specifically in relation to income tax costs, one effect of allowing taxes to be calculated on a normalized basis is to have the parties who pay tolls provide TransCanada with amounts of cash in excess of those required to pay its current taxes during periods of growth or expansion. The evidence submitted in relation to TransCanada's current and prospective capital expenditure plans indicated that substantial amounts of deferred taxes (1) would accumulate and possibly not begin to be paid out until the next century. In its consideration of the effect of income tax costs on intergenerational equity, the CPA asserted that normalized taxes were burdensome to consumers in the early years of a system's life, (and thus in periods of substantial growth or expansion as well) insofar as those years are also the years in which the required returns on the capital invested in new assets are highest. The CPA further noted that this

(1) That portion of taxes collected on a normalized basis which the Company is not required to pay out currently to the Government.

combined cost burden has come to be exacerbated by the effects of current and anticipated inflationary trends on the costs of financing new plant.

With respect to the supply of gas, the situation in 1978 of an apparent shortfall of supply from the traditional sources in western Canada has changed to one of supplies being available in excess of market demand. Further, traditional export markets have not been able to absorb the supplies that have been allocated to them. Additional supplies appear to be on the verge of becoming available in the Arctic and also off the east coast. In relation to the consumption of gas as it is affected by pricing and marketing factors, it is the Board's view that the development of new market areas could be encouraged by setting transportation costs at as low a level as is reasonably possible. Also, it is the Board's view that, in market areas already served, it would appear equally appropriate in times of rising energy costs to minimize the delivery cost of energy to the consumer.

With respect to the consideration relating to TransCanada's ability to borrow funds to expand its pipeline system, evidence was presented which shows that TCPL has had ready access to capital markets for the financing of its investments not only for its utility operation but also for those other activities in which it has become engaged. However, the Company asserted that a changeover to the flow-through method would or could negatively affect its bond ratings and thus its access to and cost of borrowed funds.

The ratings in question were those afforded by the Canadian bond-rating agencies as well as those the Company indicated it might seek from United States rating agencies. However, the evidence indicated that the Company has accomplished significant borrowings in the United States markets without having been rated by the United States agencies. In relation to the Canadian bond ratings, the evidence put forward did not, in the Board's view, offer conclusive support to the Company's assertions that a change in the tax treatment would occasion a downward change in the ratings. In this regard, the Board notes that one of the Company's expert witnesses acknowledged that the tax treatment question was only one of a number of variables involved in the determination of a bond rating.

TCPL also expressed some concern that a change in tax treatment by the Board could be considered by the public and by the security-rating agencies as a change in the regulatory climate in which the Company operates. It is noted, however, that no change in the security ratings of TCPL occurred at the time of the switch from flow-through to normalized.

During the hearing TransCanada's witnesses put considerable emphasis on the need for consistency of regulatory decisions. The Board recognizes that the regulatory climate in which utilities operate is a significant factor in maintaining the financial integrity of utilities. However, the maintenance of mechanical consistency of decisions over time is only one of the factors to be considered. As circumstances change and as

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the economic climate in which a utility operates also changes, it is necessary that the effect of procedures based on past decisions be examined to decide whether continuation of those procedures would result in the tolls still being just and reasonable.

After giving full consideration to the evidence submitted both by the Company and intervenors and the arguments presented by the various parties, the Board has concluded that the allowance for income tax to be included in TransCanada's tolls should be calculated on a flow-through basis.

In deciding on this treatment, the Board considers that the allowance for income taxes to be included in the tolls for this test year should be equal to the tax calculated with respect to the income for the test year. No adjustment will be made at this time to the balance of deferred taxes that has accumulated from the use of normalized taxes in past periods.

(ii) "Stand-Alone" versus "Non-Stand-Alone" Tax Treatment

As it has since its 1980 application, TransCanada requested in the current case that its allowance for income taxes be calculated on a stand-alone basis. This essentially involves calculating the income tax allowance to be included in the Company's tolls as though the pipeline operations subject to the jurisdiction of this Board were its only business activity. Such an approach operates to disregard items of non-utility income and expense which, on a net basis, may serve

to reduce the Company's actual tax liability below that provided for in its tolls.

The Board accepted this approach in its 1980 Decision. The matter was reviewed at some length in the 1981 hearing and the Board reaffirmed the appropriateness of this method in that Decision. This was not a major issue in the current hearing. The Board considers it appropriate to calculate the allowance for taxes in this test year on a stand-alone basis.

(iii) Corporate Surtax

By way of extending the basic stand-alone treatment permitted the Company, TransCanada also requested that the corporate surtax⁽¹⁾ be reflected in its tolls. The Board denied the same request in its 1980 TransCanada Decision, on the basis that the Company would not be in a tax paying position and no surtax would be payable. The surtax was not included in the Company's 1981 Rates Application.

When tolls are calculated using the flow-through method for the allowance for income tax and income taxes are being paid, the corporate surtax is an expense actually incurred in respect to utility income. In the particular circumstances of this case, the Board considers it appropriate to include the corporate surtax in the allowance made for income taxes.

(1) First having been instituted with respect to the years 1980 and 1981, the Federal Government proposed, in its Notice of Ways and Means Motion of 12 November 1981, to extend through 1982 and 1983 the surtax on Federal Part 1 taxes payable as calculated by corporations under the Income Tax Act. For 1982 the rate applicable is five percent, while for 1983 it reduces to 2.5 percent.

(iv) Specific Items to be Included in the
Tax Allowance Calculation

(a) Non-Allowable Amortization of Debt Discount and
Expense

This item comprises a number of individual amounts, one of which relates to foreign exchange losses on bond redemptions. In information filed early in the proceedings, TransCanada had shown the foreign exchange losses of \$2,593,000 as an effective increase in taxable income. This approach effectively reduced the debt-associated financial charges collected in the return on rate base to a level that reflected their actual deductibility for tax purposes. In a later revision, however, the Company included the foreign exchange loss item as a reduction of taxable income. While this was brought to the Company's attention during cross-examination, its final revisions to the components of the tax calculation did not include an adjustment for this item. As the Board believes TransCanada to have inadvertently overlooked this item, it has made the relevant adjustment in the tax calculation appearing below.

(b) Tax Credit for Canadian Gas Research Institute
Contributions

One of TransCanada's witnesses, when cross-examined by an intervenor, stated that the Company would be eligible to receive a tax credit of five percent in respect of its

contributions to the Canadian Gas Research Institute. The witness agreed that the application did not reflect the tax credit and that it should be updated to include such a credit. However, the tax credit was not included by the Company in its final revisions. The Board has, therefore, adjusted the tax allowance by deducting a tax credit equalling \$13,000 (five percent of \$260,000).

(c) Reduction in Taxes Payable to the Government of Ontario Due to Additional Capital Cost Allowance

During the hearing, TransCanada filed evidence outlining the effects of the recent Province of Ontario Budget on the Company's application. The Provincial Government had elected not to follow the Federal Government in requiring capital cost allowances to be calculated at one-half the normal rate in the year an asset is acquired. Thus, with respect to Ontario taxes, the Company would be allowed to claim the full Capital Cost Allowance ("CCA") rate on assets in the year in which they are acquired. In the final revisions to its application TCPL did not reflect this change. The Board has determined the additional CCA the Company will be able to claim for Ontario corporate tax purposes to be \$17,812,000. As can be seen in the computation appearing at page 4-10, the applied-for tax factor of $0.51175 \div (1 - .51175)$ is multiplied by the utility income base in computing TransCanada's overall tax allowance. The portion of this factor relating to Ontario is given by the fraction $0.08686 \div (1 - .51175)$, the numerator of which is the effective Ontario rate as reflected in the Company's application. In

order to reflect the Ontario Budget plan with respect to CCA, the Board has adjusted the basic flow-through tax allowance downwards by an amount of \$3,168,755, which is equal to the additional CCA available in Ontario multiplied by the above fraction, viz:

$\$17,812,000 \times [.08686 \div (1-.51175)]$.

(v) Flow-through Tax Calculation

Based on all of its findings with respect to rate base, rate of return and income tax matters, the Board has computed \$58,581,567 as the amount of income taxes to be included in the Company's tolls. This computation is presented on the following page.

UTILITY INCOME AFTER TAX

\$138,488,453(1)

Adjustments to Utility Income After TaxADD

Depreciation	89,880,721
Capital Gains	5,460,821
Non-Allowed Amortization of Debt Discount and Expense	1,401,328

DEDUCT

Overhead Capitalized	1,335,341
Capital Cost Allowance	139,635,000(2)
Eligible Capital Expenditures	93,582
Non-Allowable Amortization of Debt Discount and Expense	12,750,574
Inventory Allowance	821,677
Preferred Share Issue Costs	860,000
Interest AFUDC	<u>20,808,052(3)</u>

UTILITY INCOME AFTER TAX, AS ADJUSTED \$ 58,927,097

Utility Income Tax Allowance

<u>.51175</u> X \$58,927,097	61,763,322
1-.51175	

Adjustments to Utility Income Tax Allowance Re:

Tax Credit for Canadian Gas Research Institute Contributions	(13,000)
Reduction in Taxes Payable to Ontario Due to Additional CCA	<u>(3,168,755)</u>

UTILITY INCOME TAX ALLOWANCE, AS ADJUSTED \$58,581,567

- . Equals the allowed rate base multiplied by the sum of the allowed weighted average costs of preferred and common equity capital i.e., 2,375,445,166 x (.0135 + .0448).
- . Revised to reflect Board adjustments attributable to rate base deletions (Table I, page 2-2).
- . Revised to reflect allowed rate of return on rate base.

CHAPTER 5

TRANSPORTATION COST OF SERVICE

TransCanada submitted its estimated Cost of Service for a test year commencing 1 August 1982 and revised that estimate at the conclusion of the hearing.

Details of Board adjustments to allowable Cost of Service (excluding return and income taxes) are provided in this Chapter. Details of return and income taxes are found in Chapters 3 and 4, respectively. A summary of the allowable Cost of Service as authorized by the Board is shown below.

<u>Transportation Cost of Service</u>				
<u>Test Year 1 August 1982 to 31 July 1983</u>				
	(1) <u>Application</u>	(2) <u>Application As Revised</u>	<u>NEB Adjustments</u>	<u>Authorized by NEB</u>
Transmission by Others	\$ 135,110,277	\$ 141,281,698 ⁽³⁾	\$(775,572)	\$140,506,126
Operation and Maintenance ⁽⁴⁾	317,684,587	307,860,538 ⁽⁴⁾	(3,310,309)	304,550,229
Depreciation	90,590,845	90,170,886	(290,165)	89,880,721
Taxes Other than Income Taxes	24,111,110	27,360,913	-	27,360,913
Income Taxes	153,669,590	147,451,991	(88,870,424)	58,581,567
Miscellaneous Deferred Items	(7,440,178)	(7,910,517)	-	(7,910,517)
Other Operating Income	(5,287,246)	(5,309,346)	48,670	(5,260,676)
Miscellaneous Revenue	<u>(13,598,806)</u>	<u>(8,010,354)</u>	<u>368,134</u>	<u>(7,642,220)</u>
Total Cost of Service (excluding Return)	694,840,179	692,895,809	92,829,666	600,066,143
Return @ 14.31%	339,925,078	337,966,019	(337,966,019)	-
Return @ 13.88%			<u>329,711,789</u>	<u>329,711,789</u>
Net Cost of Service ⁽⁵⁾	<u>\$1,034,765,257</u>	<u>\$1,030,861,828</u>	<u>\$(101,083,896)</u>	<u>\$929,777,932</u>

(1) Application dated 25 January 1982 as updated by TCPL application dated 16 April 1982.

(2) Application as revised by TCPL letters dated 3 and 17 June 1982 to incorporate various changes based on matters raised during the hearing, including the deletion of facilities associated with the Emerson extension and other adjustments to gross plant as well as the increase in average deferred income taxes due to changes in net timing differences.

(3) Adjusted by an amount of \$823,000 for Transmission by Others relating to the TQM Cost of Service. (From information supplied to the Board by TCPL letter dated 17 June 1982.)

(4) Adjusted by an amount of \$1,052,307 for Excise Taxes. (From information supplied to the Board by TCPL letter dated 17 June 1982.)

(5) Excludes Cost of Gas Sold.

TRANSMISSION BY OTHERS

TransCanada projected its cost of transmission by others for the test year to be \$141,281,698. The Board has adjusted this to \$140,506,126, as shown in the following summary.

	<u>Application As Revised</u>	<u>NEB Adjustments</u>	<u>Authorized by NEB</u>
Great Lakes:			
(a) Basic Charges	\$152,565,060	\$ -	\$152,565,060
(b) Fuel Adjustment	(54,332,022)	(761,489)	(55,093,511)
Union Gas	4,888,920	-	4,888,920
TQM Cost of Service	66,364,000	-	66,364,000
Deferral Adjustment	(28,354,260)	-	(28,354,260)
Steelman Gas	<u>150,000</u>	<u>(14,083)</u>	<u>135,917</u>
TOTAL	<u>\$141,281,698</u>	<u>\$ (775,572)</u>	<u>\$140,506,126</u>

The adjustments shown in the preceeding summary are explained as follows.

(i) Great Lakes Fuel Adjustment

Under the pricing regime established pursuant to Part III of the PAA, fuel used in the transmission of gas through the Great Lakes system is purchased by TransCanada at the Alberta Border Price.⁽¹⁾ Because such fuel is sold to Great Lakes at the export price, TransCanada receives revenues in excess of the costs allocated to such fuel, amounting to the excess of the export price over the sum of the Alberta Border Price plus

(1) As defined in the Petroleum Administration Act Natural Gas Prices Regulations, 1981.

transmission costs on its system from the Alberta border to the export point. To offset these excess revenues, an equal amount, referred to as the "Great Lakes Fuel Adjustment", is deducted from transmission by others in the Cost of Service.

The Board has made an adjustment of \$761,489 to take into account the new transmission costs on TransCanada's system from the Alberta border to the export point at Emerson, Manitoba.

(ii) TQM Cost of Service

TransCanada requested approval of the inclusion, in its present deferral clause for Transmission by Others of, the differences between (i) the actual charges included in the Applicant's Cost of Service under the account Transmission by Others in respect of the TQM facilities less fixed charge revenues received in respect of sales by the Applicant to TQM for resale and (ii) the projected charges for Transmission by Others in respect of TQM less the fixed costs allocated to TQM sales together with carrying charges, computed monthly at an annual interest rate equal to the authorized rate of return on rate base upon the balance in the account at the end of the month, with the balance in the deferral account, including carrying charges, to be amortized from time to time through adjustment in future tolls.

The Board notes that that portion of the above-mentioned deferral clause relating to the deferral of differences between the estimated and the actual costs is similar to the deferral clauses currently in place with respect to Great Lakes Gas

Transmissison Company and Union Gas Limited. As these differences arise from changes in charges made to TransCanada by other companies and are beyond the control of TransCanada, the Board approves the inclusion in a deferral account, effective the 1st day of August 1982, of the variances between the estimated charges for Transmission by Others in respect of TQM for the test period included in TransCanada's Cost of Service and the actual charges for Transmission by Others in respect of the TQM facilities.

The Board recoqnizes that the actual volumes shipped through the TQM facilities may differ from those now estimated due to changes in the date the facilities may become available for use and to the neqotiation of new contracts with distributors. Under these circumstances the Board also approves the inclusion in this deferral account, appropriately segregated, of the differences between the estimated fixed charge revenues for the CD demand volumes as shown in column (b) of Exhibit No. 95 Final Revision, and the actual amount of such revenues.

The deferred amounts together with carrying charges calculated at a rate equal to one-twelfth of the authorized annual rate of return on rate base on the month-end balance in the deferral account should be submitted to the Board in the next toll hearing for disposition at that time.

(iii) Deferral Adjustment

(a) Deferred Amount

The amount deferred, including carrying charges, with respect to TQM resulting from the 1981 Decision was estimated by TransCanada to be \$9,122,342 as of 31 July 1982.

The Board approves the amortization of this amount in the Cost of Service during the test period. One-half of the unamortized deferred balance to be amortized during the year commencing 1 August 1982 will be added to rate base.

(b) Accounting Treatment

The deferred amount of \$9,122,342 as of 31 July 1982 will be amortized in equal amounts over a twelve-month period commencing 1 August 1982.

Any variances between the amounts estimated and the actual amounts up to 31 July 1982 will be included in a separate deferral sub-account of Transmission by Others together with carrying charges calculated at a rate equal to one-twelfth of the authorized annual rate of return on rate base on the month-end balance in the said sub-account for disposition by the Board in subsequent toll proceedings.

(iv) Steelman Gas

The Board's adjustment of \$(14,083) to the Applicant's calculation of the test year transportation costs for gas purchased from Steelman Gas is necessary in order to reflect the approved transportation costs on the Applicant's system.

OPERATION AND MAINTENANCE

Adjustments made by the Board to operating and maintenance expense have resulted in a net decrease of \$3,310,309 as follows:

Adjustment

Lost and Unaccounted for Gas	\$ (498,636)
Salaries and Employee Benefits	(2,383,187)
Departmental Expenses	(551,158)
Adjustment of Amount Deferred Relating to Excise Tax	(5,540)
Adjustment of Indirect Charges Allocated to Alberta	<u>128,212</u>
TOTAL ADJUSTMENT	<u>\$ (3,310,309)</u>

(i) Lost and Unaccounted for Gas

In the application, TCPL used a figure of 0.12 percent of the measured input to the pipeline system, which figure was approved by the Board in its August 1981 Reasons for Decision, to arrive at a projected $54.3 \times 10^6 \text{m}^3$ for lost and unaccounted for gas in the test year.

The Board considers that, on the basis of the evidence filed with respect to actual amounts of such losses sustained by TransCanada, it would be more appropriate to allow 0.11 percent of measured input for lost and unaccounted for gas.

The Board's decision reduces the allowance for lost and unaccounted for gas as follows:

	<u>6 3</u> <u>10 m</u>	<u>(1)</u> <u>GJ</u>	<u>Amount at Alberta</u> <u>Border Price</u> <u>of 216.764 ¢/GJ</u>
Submitted by the Applicant	54.3	2,048,196	\$4,439,751
As Adjusted by the Board	49.8	1,878,456	4,071,816
Adjustment		<u>169,740</u>	<u>367,935</u>
Decrease in Associated Excise Tax			<u>130,701</u>
TOTAL ADJUSTMENT			\$ <u>498,636</u>

(ii) Cost of Gas Used in Operations

The Applicant's estimated cost of gas used in operations was \$120,560,104, excluding lost and unaccounted for gas, based on the Alberta Border Price of 216.764 ¢/GJ.

The Board is satisfied that TransCanada's fuel consumption forecast is reasonable.

(iii) Staff, Salaries and Employee Benefits

TransCanada had 1,483 employees and 39 vacancies at the end of the base year. For the period between the end of the base year and the end of the test year, the Company included a provision to add 85 new employees to its staff, for both utility and non-utility operations, and presented a detailed description of the new positions. On the basis of this evidence, the Board accepts for inclusion in the test year Cost of Service, the staff level applied for by TransCanada recognizing that part of the cost of staff is allocated to non-utility operations.

(1) Calculated at 37.72 MJ/m³

The Applicant, in its estimate of test year salaries, provided for an increase of 13.2 percent in 1982 and 12.0 percent in 1983, on an average basis. The 13.2 percent escalation factor for 1982 was determined by taking into consideration salaries and wage settlements in competing industries, projections of the cost of living, and the advice of the Company's salary consultants. TransCanada also presented a comparison of the competitive position of its employees' wages and salaries with those of a number of surveyed firms. The Board notes that this 13.2 percent increase has already been implemented by the Company, effective 25 December 1981.

The Board, in its August 1981 Reasons for Decision, allowed the Company to provide for salary increases of 12.0 percent for 1982 in the estimation of the test year Cost of Service allowance for salaries. The Board remains of the view that salary increases of 12.0 percent for 1982 are reasonable for the determination of the Cost of Service allowance for salaries.

With regard to the 1983 portion of the test year used in the present application, it is the Board's opinion that TransCanada did not provide adequate justification for the inclusion in the test year Cost of Service of 1983 salary increases of 12 percent. The Canadian economy is presently facing a severe recession and high rates of inflation. The weakening demand for labour has already begun to have a restraining effect on wage demands, as was reported recently by

Labour Canada. The moderating effect of the slack in labour markets on wage and salary increases will be further enhanced by efforts made by businesses and governments to bring down current inflationary pressures.

It is the Board's view that increases of 12.0 percent in 1982 and 7.0 percent in 1983 are reasonable for the determination of the test year Cost of Service allowance for salaries.

With respect to employee benefits during the test year, the Applicant projected cost increases which were due to increases in benefit premiums and fees, including statutory plans, increases in salary rates and increases in staff. In relation to the cost increases associated with the Company's retirement plan, TransCanada indicated that the Company decided to move to a non-contributory type at the beginning of 1982 because it felt that its plan was not competitive with other plans in the industry. TransCanada also asserted that its estimated costs in relation to the pension plan are still low relative to comparative industry costs, notwithstanding the change to a non-contributory plan.

Having regard to this evidence, the Board accepts TransCanada's estimates of test year cost of employee benefits, as modified to reflect the above-noted reduction in the test year allowance for salaries.

As a result of these reductions, the test year allowance for salaries and employee benefits has been reduced by \$2,383,187.

(iv) Amortization of Northern Project Advances

TransCanada included in its Cost of Service for the test year an amount of \$189,105 which represents costs that were formerly recoverable through the Alberta Cost of Service. The Alberta Petroleum Marketing Commission determined that the amortization of Northern Project Advances was not a proper charge to the Alberta Cost of Service and terminated the approval of advances recoverable through the Alberta Cost of Service effective 31 October 1980. The costs of \$189,105 relating to the period 1 November 1980 to 30 June 1981, which were disallowed from the Alberta Cost of Service, were redeferred by TCPL and have been included by TCPL for cost recovery in the test period.

The Board in its 1981 Reasons for Decision allowed in Cost of Service 100 percent of the amortization of Northern Project Advances to the extent that they have not been included in the Alberta Cost of Service. The Board believes it appropriate to continue this treatment of costs relating to the Northern Project Advances. Accordingly, the Board accepts the inclusion of \$189,105 in the test year Cost of Service.

(v) Allocation of Administrative and General Expenses to Non-Jurisdictional Functions

The Applicant proposed modifications to its methods of allocating administrative and general expenses to the Company's non-utility, utility and Alberta operations. These modifications resulted from the change in TransCanada's

accounting procedures from a non-divisionalized to a divisionalized system commencing in 1980. The Company witnesses stated that they are continually reviewing their procedures and allocation methods within the Company and that the method they are currently using to determine the expenses pertaining to the various divisions within the Company is more equitable than that used in the past. However, they agreed that they had not yet gained sufficient experience to enable them to use this method to allocate all general expenses.

Prior to divisionalizing the accounting system, all of the departmental expenses and most of the general expenses were subject to allocations based on percentages. Under the divisionalized system, salaries and expenses are charged to the various divisions of the Company on the basis of employees' time reports and actual expenses pertaining to each division. Thus, more accurate information on the salaries and other direct expenses of each division is available.

In order to make allocations of indirect expenses, formulae based on direct salaries are applied to the portion of administrative and general expenses that cannot be directly charged to the Company's divisions. For a number of years the Company has been using a two-step method in allocating its indirect administrative and general expenses to its utility, non-utility and Alberta operations. The first step is the allocation of those expenses between the non-utility excluding

Alberta and the utility including Alberta. After the allocation of the non-utility portion, the remaining expenses are allocated between the utility and Alberta divisions. One of the Company's reasons for the use of the two-step basis of allocation is that the Alberta operations are an integral part of TransCanada's regulated activities and, consequently, the utility and Alberta operations are viewed, for allocation purposes, as a single separate pool.

The Board finds the two-step method for allocating administrative and general expenses to the utility and non-utility divisions and to the Alberta Cost of Service just and reasonable. However, the Board considers such allocation to be a matter warranting continuous review. The Board expects TransCanada to continue its efforts towards improving its allocation methods, as the Company gains experience in the operation of its divisionalized accounting system.

(vi) Transmission and Departmental Expenses

The Applicant estimated the test year Cost of Service allowance for a number of departmental expenses by applying the October 1981 Conference Board of Canada forecast of changes in the Consumer Price Index ("CPI") to a broad spectrum of accounts for which the CPI is a reasonable indicator of inflation. In October 1981 the Conference Board forecasted CPI increases of 12 percent per year in both 1982 and 1983. The use of these projections by TransCanada resulted in escalations of one percent per month over the 22-month period between the

end of the base year and the end of the test year. That represents a total uncompounded inflation adjustment of 22 percent.

Despite downward revisions made later by the Conference Board to its October 1981 projections, the Company felt that these changes did not substantially affect the inflation adjustments made to a number of departmental expenses. Moreover, TransCanada stated that the record of forecasting accuracy of both the Conference Board and TransCanada has shown a consistent tendency to underestimate the actual rate of inflation as measured by changes in the Consumer Price Index. In light of this evidence, the Company felt that its forecast of inflation for 1982 and 1983 is likely to underestimate the actual rate of inflation for those years.

It is the Board's view that the 12 percent escalation factor proposed by TransCanada for 1982 and 1983 does not take into account recent developments in the Canadian economy which point to more moderate rates of inflation than those previously expected by several forecasters. Although the Canadian inflation picture is still unclear as a result of the interplay of conflicting forces, it is the Board's opinion that, given the severity of the present recession, the factors pointing towards a winding down of current inflationary pressures are stronger than those tending to sustain higher rates of inflation. The Board concludes, therefore, that escalation factors of 11 percent in 1982 and 9.5 percent in 1983 are reasonable inflation adjustments for those departmental

expenses whose test year Cost of Service allowance was estimated by TransCanada using the Consumer Price Index. As a result of this reduction in the inflation adjustments, the test year Cost of Service allowance for departmental expenses has been reduced by \$551,158.

(vii) Excise Tax on Company Used Gas

In a letter to the Board dated 14 January 1982, TransCanada requested approval to defer the variance resulting from the 7¢/GJ increase in the Excise Tax, effective 1 February 1982, based on actual gas usage volumes. In a letter to TransCanada dated 26 January 1982, the Board directed that, effective 1 January 1982, TransCanada record each month in NEB Account 179 (Other Deferred Debits) the difference between the actual Excise Tax and the Excise Tax allowed by the Board for that month in its determination of the tolls and tariffs in effect during the month. The Board also informed TransCanada that the disposition of the deferred balance for rate-making purposes, including the appropriate rate to be used for calculating carrying charges, would be examined at the next toll hearing.

(a) Deferred Amount for Period 1 January 1982 to
31 July 1982.

The Applicant proposed that the amount of the variance resulting solely from the increase in Excise Tax, effective 1 February 1982, together with carrying charges be considered

for amortization in future Cost of Service. The Applicant noted that provision for the Excise Tax effective 1 July 1981 and 1 January 1982 had been included in the authorized transportation Cost of Service and, therefore, only deferred amounts for the period 1 February 1982 to 31 July 1982 would be subject to the requested rates. The Board directed in its letter of 26 January 1982 that the amount deferred should also reflect the lower than anticipated Excise Tax rate for the month of January 1982.

TransCanada included an amount of \$1,286,403 as a reasonable approximation of the deferred balance, including carrying charges, at 1 August 1982. The Board has adjusted this amount to \$1,280,863 to reflect carrying charges calculated at the authorized annual rate of return on rate base in effect for this time period. This amount will be included in the test year Cost of Service. One-half of the unamortized deferred balance to be amortized during the year commencing 1 August 1982 will be added to rate base.

TransCanada proposed that the carrying charges on the deferred amount should be calculated at the monthly average of the prime interest rates established by its banks (the Canadian Imperial Bank of Commerce and the Royal Bank of Canada) during the deferral period.

Because the change in the Excise Tax rate by the Federal Government could not have been foreseen by and is beyond the control of TransCanada, the Board is of the view that carrying

charges should be allowed on these deferred amounts for the period 1 January 1982 to 31 July 1982. These carrying charges shall be calculated at the authorized annual rate of return on rate base as discussed at page 3-13 of these Reasons for Decision.

Further to the Board's accounting directive dated 26 January 1982 with respect to the amounts deferred resulting from variances between the actual Excise Tax payable and the Excise Tax allowed by the Board during the deferral period, TransCanada is required to record carrying charges on the deferred balances up to 31 July 1982 at the authorized annual rate of return on rate base during that period.

The amount deferred during the period 1 January 1982 to 31 May 1982 and the amount projected to be deferred for the period 1 June 1982 to 31 July 1982 together with carrying charges will be amortized in equal amounts over a twelve-month period commencing 1 August 1982. In addition, any difference between actual Excise Taxes paid and the estimated Excise Taxes for the months of June and July 1982 together with carrying charges thereon for the period 1 June 1982 to 31 July 1982 is to be recorded in a separate deferral account. This deferred amount, including carrying charges calculated monthly at one-twelfth of the authorized annual rate of return on rate base, should be submitted to the Board for disposition at the next toll hearing.

(b) Treatment of Future Changes in Excise Tax Rate

The Board notes the unpredictability with regard to Excise Taxes both as to the date and the amount of the tax rate increases. As the amount of future tax rate increases is subject to both the price of crude oil at Toronto and the application of the "approximately 65 percent" formula, over which TransCanada has no control, TransCanada has requested that any difference between actual Excise Taxes payable and Excise Taxes allowed by the Board in TransCanada's test year Cost of Service be deferred. TransCanada proposed that carrying charges would be calculated upon the balance in the above-noted deferral account at the end of each month at an annual interest rate equal to the average of the prime rates of the Canadian Imperial Bank of Commerce and the Royal Bank of Canada, in effect during the deferral period.

Under the circumstances, the Board considers it appropriate to grant a deferral provision with respect to those variances resulting solely from changes in the Excise Tax rates. Commencing 1 August 1982, TransCanada shall record any such variances in a deferral account together with carrying charges calculated monthly at one-twelfth of the authorized annual rate of return on rate base. This deferred amount should be submitted to the Board for disposition at the next toll hearing.

(viii) Adjustment of Indirect Charges Allocated to Alberta

As a result of the Board's adjustments to salaries, employee benefits and departmental expenses, the Board has adjusted operating and maintenance expense by \$128,212 to reflect that portion of indirect expense formerly charged to Alberta.

DEPRECIATION

Depreciation of fixed assets, as revised, was included in the Cost of Service at rates previously authorized by the Board. The amount projected by the Applicant has been reduced by \$290,165 to reflect the Board's removal from rate base of various items of gross plant, as shown in Table 1, column 3, page 2-2, and to correct for an error in the calculation of depreciation expense.

OTHER OPERATING INCOME

The Board's adjustment of \$(48,670) to the Applicant's calculation of other operating income for the test year was necessary in order to reflect decreased revenue from the sale of delivery pressure arising from use in the calculation of the revenue from the new Manitoba tolls approved herein.

MISCELLANEOUS REVENUE

TransCanada credited its Cost of Service with miscellaneous revenue amounting to \$8,010,354. This amount included revenue from the sale of Peaking Service ("PS") and Temporary Winter Service ("TWS"). In addition it included an amount of \$282,220, equal to the excess of the revenues received by TransCanada from selling Authorized Overrun Interruptible ("AOI")

service at tolls equal to the Contract Demand ("CD") tolls at 100 percent load factor, over the incremental costs of providing AOI service.

In view of its decision on AOI tolls (see page 6-1), the Board has decreased miscellaneous revenue by \$282,220. Furthermore, the Board has made an adjustment of \$85,914 to reflect the approved toll to the Eastern Zone which is used in the calculation of revenue received from the sale of PS and TWS.

Accordingly, the Board has determined that the amount of miscellaneous revenue to be credited to the Cost of Service in the test year shall be \$7,642,220.

CHAPTER 6

TOLL DESIGN AND TARIFF MATTERSTOLL DESIGN(1) Tolls for AOI Service

TransCanada proposed that the tolls for AOI service be set at the same level as tolls for CD service taken at 100 percent load factor. TransCanada believed that such action would lessen the attractiveness to distributors of avoiding or delaying long-term commitment to CD service and relying instead on AOI service.

In the Board's view, insufficient evidence was presented by TransCanada to justify a system-wide change in the basis for determining tolls for AOI service. However, since developmental service will be offered off the TQM system beginning 1 November 1982 and since the Board believes that to encourage the development of new gas markets in Quebec the toll for AOI service should not be lower than the toll for developmental service in those areas where both services are available, the Board is of the view that it is appropriate to set the toll for AOI service sold off the TQM system at the same level as the toll for CD service taken at 100 percent load factor in the Eastern Zone. The toll for AOI service off the TCPL system will continue to be based on the incremental costs of providing such service.

This results in two tolls for AOI service in the Eastern Zone which, in the circumstances surrounding the expansion of service in Quebec, the Board finds to be just and reasonable.

The Board notes that during the test year TransCanada is not forecasting any AOI sales off the TQM system. Therefore, the only AOI toll which would, in fact, be applicable to Gaz Métro, would be the toll based on the incremental costs. However, at the next public hearing respecting TransCanada's tolls, the Board would expect TransCanada to address the issue of allocation of AOI sales to Gaz Métro between delivery points on the TransCanada system and delivery points on the TQM system.

(ii) ANNUAL CONTRACT QUANTITY ("ACQ") Differential

In its application TransCanada proposed an ACQ toll differential of \$4.00/10³m³. Subsequently, an updated calculation of the ACQ differential reflecting new storage and transportation rates approved by the Ontario Energy Board was filed. The new rates resulted in a proposed ACQ differential of \$4.30/10³m³.

The calculation of the ACQ differential is based on what it would cost TransCanada to provide storage and transportation services in Ontario, which would be necessary to sell as CD service the ACQ service volumes.

Two intervenors proposed changes in the method of calculating the differential whereby the costs associated with the Excise Tax paid by the distributor when the gas goes into storage would be included in the differential. The actual costs of storage incurred by the distributors are not available to the Board nor is determination of these costs within the Board's jurisdiction. In the past, the differential was based on the

cost of TransCanada using the distributors' storage facilities. The Board sees no reason to change this method.

Accordingly, after taking into account the various adjustments made to Cost of Service in this Decision, the Board finds that a differential of \$4.20/10³m³ is appropriate.

(iii) T-Service⁽¹⁾ Toll

The toll for T-Service is designed so that the charges for CD Service are equal to the charges for T-Service when adjusted for fuel supplied by the purchaser of T-Service.

In its calculation of the T-Service toll, the Board last year used an average figure for the Excise Tax which was projected to be in effect over the period 1 July 1981 to 30 June 1982.

The use of an average figure for the Excise Tax resulted in a lower unit cost for gas purchased under CD Service in the first part of the year because the actual Excise Tax was below the average figure used in the calculation. The situation was reversed in the latter part of the year when the actual Excise Tax became higher than the average figure.

In its calculation of the tolls to be effective 1 August 1982, the Board has used the current Excise Tax rate of 77 ¢/GJ.

During the hearing Gaz Métro suggested that in the event of a change in the Excise Tax, the T-Service toll should be recalculated to reflect the new Excise Tax so that the parity between T-Service and CD Service prices to Gaz Métro will be maintained.

(1) Transportation service provided to customer who supplies fuel used in transportation of contracted volumes.

The Board appreciates the concerns of Gaz Métro in this regard but is of the view that it would be more appropriate for Gaz Métro to apply for a new T-Service toll at the time of any change in the Excise Tax.

The calculation of the approved toll is shown in the footnote at the bottom of this page.⁽¹⁾

TARIFF MATTERS

(i) Extension of Eastern Delivery Area

In its application TransCanada proposed that the Eastern Delivery Area be extended from Boisbriand to a point on the pipeline system of Trans Québec & Maritimes Pipeline Inc. near Quebec City, for both cost allocation and toll design purposes. It was projected that, in the test year, sales would be made to TQM beyond Montreal as far east as Quebec City.

Several intervenors opposed TransCanada's proposal and argued that the evidence in the hearing and the principles of cost allocation justified a split Eastern Delivery Area for cost allocation purposes.

The Board notes that the combined effect of the inclusion of the North Bay Shortcut and the expansion of the Eastern Delivery Area is to shift the load centre of the Eastern Zone slightly to the west of the existing load centre. It also notes that the actual loads during the test year in the TQM portion of the area are unknown due to uncertainty in the date for completion of the facilities, but are likely to be

(1) T-Service commodity toll

$$\begin{aligned}
 &= \text{Eastern Zone commodity toll for CD Service -} \\
 &\quad [\text{fuel ratio to transport gas costed at (the Alberta} \\
 &\quad \text{Border Price plus Excise Tax) times the heating value} \\
 &\quad \text{of the gas}] \\
 &= 9.760 - [0.0738 \times (2.16764 + 0.77) \times 37.72] \\
 &= \$ 1.580/10^3 \text{m}^3
 \end{aligned}$$

small relative to those of the remainder of the area.

After having carefully considered all the evidence, the Board is of the view that it is not unreasonable at this time and in the circumstances of this application to extend the Eastern Delivery Area to Quebec City for both toll design and cost allocation purposes. Consequently, pursuant to Part IV of the NEB Act, the Board approves the amendment to the Applicant's tariff to provide for extension of the current Eastern Delivery Area to a proposed delivery point on the mainline of the TQM pipeline system on the north shore of the St. Lawrence River near Quebec City. This approval is conditional upon TransCanada filing with the Board revised wording of Sheet 20 of the General Terms and Conditions of its tariff to reflect the Board's decision on the extension of the Eastern Delivery Area. The Board will also require that TCPL file revised maps for inclusion in the tariff delineating the delivery points in the extended Eastern Delivery Area.

The Board notes the concerns of the intervenors and recognizes that there are uncertainties surrounding the expansion of natural gas service in Quebec and the Maritimes. Depending upon how development proceeds, it may be appropriate to review this issue at future public hearings on toll applications by TransCanada.

(ii) Developmental Sales

In his policy statement of 13 January 1982, the Minister of Energy, Mines and Resources stated that beginning 1 November 1982 developmental prices will be prescribed to

encourage rapid expansion and build-up of new natural gas markets in Quebec and the Maritimes.

In anticipation of this action, TransCanada proposed a change in its tariff to incorporate a Developmental Pricing Provision for any buyer who has executed a CD Service Contract with TransCanada for the purchase of gas to be delivered into new market areas to be served off the TQM system.

TransCanada stated that the availability of the developmental price, as proposed in the amendment to the tariff, is conditional on such price being prescribed in the PAA Natural Gas Prices Regulations, 1981 and on TransCanada and the Federal Government executing an agreement whereby the Federal Government will reimburse TransCanada for that portion of the demand charges which is not recovered from the buyer by reason of payment of the developmental price by the buyer.

During the hearing TransCanada indicated that the agreement with the Federal Government had not yet been executed but was still under discussion.

In the Board's view it would not be appropriate at this time to approve the amendment to TransCanada's tariff to incorporate the anticipated agreement with the Federal Government, the terms of which have not yet been finalized.

Accordingly, approval of the proposed tariff amendment is denied.

(iii) Sales Meter Station Charges

The Applicant's tariff currently provides that the buyer of gas at a delivery point shall pay TransCanada a portion of the costs of the delivery point facilities if the volume delivered through the facility is less than 2,500 10³m³ during any contract year.

TransCanada proposed to waive this charge for the first three contract years after completion of such facilities. TransCanada believed that this change would assist a distributor to market gas in areas which would otherwise be considered uneconomical.

In the Board's view TransCanada did not demonstrate that the elimination of the sales meter station charges would appreciably improve the economic feasibility of expansion. Accordingly, approval of the proposed tariff amendment is denied.

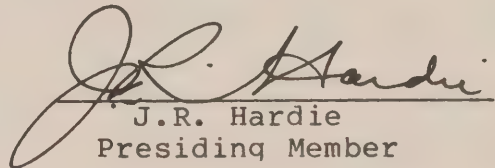
APPROVED TOLLS

The approved tolls are set out in Appendix II. The Board finds these tolls to be just and reasonable and is of the view that they satisfy the requirements of Section 52 of the NEB Act and that they will not result in unjust discrimination within the meaning of Section 55.

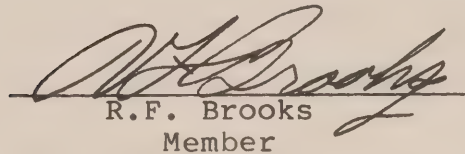
CHAPTER 7

DISPOSITION

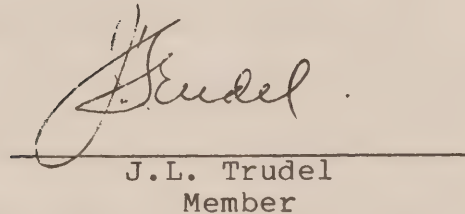
Order Nos. TG-2-82 and TG-3-82, which are shown as Appendices II and III respectively, were predicated upon these Reasons for Decision. The foregoing chapters, together with the above Orders, constitute our Reasons for Decision and our Decision on the application by TransCanada Pipelines Limited pursuant to Part IV of the NEB Act.



J.R. Hardie
Presiding Member



R.F. Brooks
Member



J.L. Trudel
Member

NATIONAL ENERGY BOARD



OFFICE NATIONAL DE L'ÉNERGIE

ORDER NO. RH-3-82

IN THE MATTER OF the National Energy Board
Act and the Regulations made thereunder;
and

IN THE MATTER OF an application by
TransCanada PipeLines Limited (hereinafter
called "the Applicant") for certain orders
respecting tolls under Sections 50, 52 and
53 of the National Energy Board Act and for
certain orders under Section 53 of the
Petroleum Administration Act, filed with the
Board under File No. 1562-T1-15.

B E F O R E the Board on Monday, the 8th day of March, 1982.

UPON reading the application filed by the Applicant dated
the 25th day of January 1982 (hereinafter called the "application"),
firstly, under Sections 50, 52, and 53 of the National Energy Board
Act, for orders fixing the just and reasonable tolls the Applicant
may charge for or in respect of transportation of gas sold by the
Applicant, and for transportation services rendered for Saskatchewan
Power Corporation, Consolidated Natural Gas Limited, Gaz
Métropolitain, inc., ProGas Limited, and Sulpetro Limited and
disallowing any existing tariffs or tolls or portions thereof that
are inconsistent with the just and reasonable tolls so fixed,
effective the 1st day of August 1982 and, secondly, under Section 53
of the Petroleum Administration Act and the Regulations made pursuant
to Part III of the said Act, for Special and General Orders approving
the price to be paid by the Applicant to acquire gas for removal from
the Province of Alberta and revoking any previous orders inconsistent
therewith.

- 2 -

IT IS ORDERED THAT:

1. That portion of the application made under Sections 50, 52 and 53 of the National Energy Board Act will be heard at a public hearing commencing at 9:30 a.m. local time, on Tuesday, the 11th day of May 1982 in the Hearing Room of the National Energy Board, Trebla Building, 473 Albert Street, in the City of Ottawa, in the Province of Ontario, (hereinafter referred to as "the Hearing"). The proceedings will be conducted in either of the two official languages and simultaneous interpretation will be provided should a party to the proceedings request such facilities in his intervention.
2. The Applicant shall, as soon as possible, serve a true copy of the application, if not already served, and a true copy of this Order, upon each of the Applicant's customers, upon each person listed in Appendix I of this Order and, as soon as possible, upon each other party who has intervened pursuant to paragraph 4. hereof.
3. The Applicant shall arrange to have the Notice of the Hearing as set out in Appendix II to this Order published by the 22nd day of March, 1982, or as soon thereafter as possible, in one issue each of "The Herald" in the City of Calgary and "The Journal" and "Le Franco-Albertan", in the City of Edmonton, both in the Province of Alberta; "The Leader-Post" and "L'Eau-Vive", in the City of Regina, both in the Province of Saskatchewan; "The Winnipeg Free Press" and "La Liberté", in the City of Winnipeg, both in the Province of Manitoba; "The Globe and Mail", "Toronto Star", "The Financial Post" and "Le Toronto Express", in the City of Toronto,

... 3

- 3 -

"The Citizen" and "Le Droit" in the City of Ottawa, all in the Province of Ontario; "The Gazette", "La Presse" and "Financial Times of Canada" in the City of Montreal, all in the Province of Quebec, and as soon as may be possible in the Canada Gazette.

4. Any person intending to intervene in the hearing of the application, shall, on or before the 8th day of April 1982 file with the Secretary of the Board thirty (30) copies of a written statement in either of the two official languages, containing his reply or submission, together with any supporting material. This submission shall contain a concise statement of the facts from which the nature of the intervenor's interest in the proceedings may be determined, it may admit or deny any or all of the facts alleged in the application, it shall be endorsed with the name and address of the intervenor or his solicitor to whom communications may be sent, and it shall state the official language in which the intervenor wishes to be heard.

5. Intervenors shall, on or before the 8th day of April 1982, serve three (3) copies of their submission on the Applicant and, as soon as possible, serve one (1) copy on each of the parties listed in Appendix I and one (1) copy on each other party who has intervened pursuant to paragraph 4. A list of intervenors will be distributed to all interested parties by the Board on or about the 14th day of April 1982.

... 4

- 4 -

6. Any party who files a statement of intervention after the 8th day of April 1982 must file and serve a notice of motion, requesting leave to submit a late intervention. Such notice shall be filed and served in accordance with paragraph 7 of the Rules and Procedures set out in Appendix III to this Order.

7. The Applicant shall prepare its direct evidence written in question and answer form with lines numbered (hereinafter called "written direct evidence") for each of its witnesses and shall,

(a) on or before the 16th day of April, 1982 file thirty (30) copies thereof with the Secretary of the Board, and

(b) as soon as possible, serve one copy of the same upon any other party who has intervened pursuant to paragraph 4 of this Order.

8. Any party who has intervened pursuant to paragraph 4 hereof and who wishes to present direct evidence in the Hearing, shall, unless otherwise authorized by the Board, prepare written direct evidence and shall, on or before the 30th day April, 1982 file thirty (30) copies thereof with the Secretary of the Board and serve one (1) copy of the same upon the Applicant and each other party who has intervened pursuant to paragraph 4 hereof.

9. The Rules and Procedures set out in Appendix III to this Order shall govern the conduct of the Hearing.

10. Any interested party may examine a copy of the application and the submissions filed therewith at the office of:

... 5

- 5 -

National Energy Board,
Trebla Building,
473 Albert Street,
Ottawa, Ontario
K1A OE5

or at the offices of the Applicant at the following addresses:

TransCanada PipeLines Limited,
Commerce Court West,
Toronto, Ontario
M5L 1C2

or

407-8th Avenue South West,
Calgary, Alberta
T2P 2M7

IT IS FURTHER ORDERED THAT:

11. The Applicant shall, as part of its application, address the issue of whether the continued use of the normalized method of calculating the allowance for income tax in the Applicant's tolls is warranted in light of the present and projected circumstances relating to the supply, marketing and pricing of natural gas.

DATED at the City of Ottawa, in the Province of Ontario,
this 8th day of March, 1982.

NATIONAL ENERGY BOARD

K. J. MacDonald
G. Torke Slader,
for Secretary

RH-3-82

APPENDIX I
ORDER NO. RH-3-82

Attorney General for the
Province of Alberta,
227 Legislative Buildings,
Edmonton, Alberta
T5K 2B6

Attorney General for the
Province of Saskatchewan,
Legislative Buildings,
Regina, Saskatchewan
S4S 0B3

Attorney General for the
Province of Manitoba,
104 Legislative Buildings
Winnipeg, Manitoba
R3C 0V8

Attorney General for the
Province of Ontario,
18 King Street East,
Parliament Buildings,
Toronto, Ontario
M5C 1C5

and

Mr. R.P. Smith,
Senior Counsel,
Legal Services,
Ministry of Energy,
56 Wellesley Street West,
12th Floor,
Toronto, Ontario
M7A 2B7

Procureur général de la
Province de Québec,
Edifice Delta,
1200 route de l'église,
Ste-Foy, Québec
G1R 4X7

and

Me Jean Giroux, avocat,
Service juridique du Ministère
de l'énergie et des ressources,
200B, chemin Ste-Foy,
Québec City, Québec
G1R 4X7

Mr. D.E. Alderson,
President,
Canadian Gas Association,
55 Scarsdale Road,
Don Mills, Ontario
M5B 2R3

The Secretary,
Canadian Petroleum Association,
1500 - 633 - Sixth Avenue S.W.,
Calgary, Alberta
T2P 2Y5

Mr. A.E. Potter,
Manager, Regulatory Affairs,
Independent Petroleum
Association of Canada,
700-707-7th Avenue S.W.
Calgary, Alberta
T2P 0Z2

Dr. A.W. Birnie,
Executive Secretary,
Industrial Gas Users
Association,
206 Laurier Avenue W.,
2nd Floor,
Ottawa, Ontario
K1P 5J8

APPENDIX II
ORDER NO. RH-3-82

NATIONAL ENERGY BOARD

NOTICE OF PUBLIC HEARING

TRANSCANADA PIPELINES LIMITED RATES APPLICATION

The National Energy Board will conduct a hearing on an application by TransCanada PipeLines Limited for orders under sections 50, 52 and 53 of the National Energy Board Act fixing the just and reasonable tolls TransCanada may charge for or in respect of transportation of gas sold by TransCanada, and for transportation services rendered for Saskatchewan Power Corporation, Consolidated Natural Gas Limited, Gaz Métropolitain, inc., ProGas Limited, and Sulpetro Limited and disallowing any existing tariffs or tolls or portions thereof that are inconsistent with the just and reasonable tolls so fixed. The hearing will commence at 9:30 a.m. on Tuesday, 11 May 1982, in the Hearing Room of the National Energy Board, Trebla Building, 473 Albert Street, Ottawa, Ontario.

The hearing will be public and will be held to obtain evidence and hear the relevant views of interested parties, groups, organizations, and companies on the application.

Any person wishing to intervene should write or telex the Secretary of the Board, as soon as possible, requesting a copy of Order RH-3-82 (available in English or French) which sets out the procedure for intervening and the locations at which copies of the application may be examined. The deadline for filing interventions with the Board is 8 April 1982.

For further information, telephone the Board's Information Officer, Mr. D. Sabourin, at (613) 593-6936.

G. Yorke Slader
Secretary
National Energy Board
473 Albert Street
Ottawa, Ontario
K1A 0E5
Telex No: 053 3791

Dated at Ottawa, Canada
8 March 1982

APPENDIX III
ORDER NO. RH-3-82

RULES AND PROCEDURES

1. In these Rules, "party" means TransCanada PipeLines Limited and any intervenor who has filed with the Secretary of the Board a written statement pursuant to paragraph 4 of Order No. RH-3-82.

2. At the Hearing of the application by TransCanada PipeLines Limited, the evidence shall be heard in the following order:

- (1) Rate Base and Cost of Service excluding Income Taxes and Return;
- (2) Income Taxes;
- (3) Return; and
- (4) Toll Design and Other Tariff Matters.

3. The Board shall hear all of the evidence on each of the items referred to in paragraph 2 of these Rules, item by item, and for that purpose the Board shall first hear all of the evidence of the Applicant in respect of one item and then shall hear the evidence of each of the intervenors in respect of the same item.

4. Upon the completion of the evidence on all items referred to in paragraph 2 of these Rules, the Board shall hear the oral argument of all parties.

5. Any party who wishes to obtain additional information from another party in respect of matters raised in filings made with the Board, may request in writing that such information be provided, and the party to whom the request is made shall, as soon as possible, either provide a written response to the request or refer the

- 2 -

question to the Board under paragraph 7 hereof. Wherever possible, in order to expedite the Hearing, such requests and responses should be made before the commencement of the Hearing, and copies shall be filed as exhibits at the Hearing.

6. Any party receiving an information request from the Board shall respond as soon as possible by filing with the Secretary of the Board thirty (30) copies of the response, and shall file the information request and its response as exhibits at the Hearing.

7. If any question arises upon which a decision of the Board may be required, thirty (30) copies of a notice of motion with respect thereto shall be filed with the Secretary of the Board, and one (1) copy shall be served on each party to the Hearing and the motion shall be heard by the Board on a date to be fixed by it.

8. Any party who files a submission or written direct evidence in accordance with paragraphs 4, 7 or 8 of Order RH-3-82 or a notice of motion pursuant to paragraph 7 hereof, shall at the opening of the Hearing, file two (2) copies of the same and proof of service thereof.

9. The order of appearances of parties and sequence of adducing evidence and conducting cross-examination will be announced by the Board on or before the opening of the Hearing.



CANADA

ORDER NO. TG-2-82

IN THE MATTER OF the National Energy Board Act
and the Regulations made thereunder; and

IN THE MATTER OF an application by TransCanada
PipeLines Limited (hereinafter called "the
Applicant") for certain Orders respecting
tariffs and tolls pursuant to Sections 50 and
53 of the National Energy Board Act, filed
with the Board under File No. 1562-T1-15.

BEFORE:

J.R. Hardie)	
Presiding Member)	
	)	on Thursday, the 15th day
R.F. Brooks)	
Member	)	of July, 1982
)	
J.L. Trudel)	
Member)	

UPON an application by the Applicant dated the 25th day of January, 1982, as amended by an application dated the 16th day of April, 1982, inter alia, for orders under Sections 50 and 53 of the National Energy Board Act fixing the just and reasonable tolls the Applicant may charge for or in respect of transportation of gas sold by the Applicant, and for transportation services rendered for Saskatchewan Power Corporation, Consolidated Natural Gas Limited, Gaz Métropolitain, inc., ProGas Limited, and Sulpetro Limited, and disallowing any existing tariffs or tolls or portions thereof that are inconsistent with the just and reasonable tolls so fixed, effective the 1st day of August, 1982;

AND UPON the Board having heard the evidence and submissions relating to the said application at a public hearing which commenced on the 11th day of May, 1982.

IT IS ORDERED THAT:

1. The Applicant shall charge in respect of the transportation of gas sold by it and in respect of its T-Service and Transportation Service, the tolls specified in Schedule "A" hereto.
2. The amendment to the Applicant's tariff, providing for the extension of the current Eastern Delivery Area to a point on the mainline of the Trans Québec & Maritimes Pipeline Inc. system on the north shore of the St. Lawrence River near Quebec City, Quebec, is hereby approved.

-2-

3. The approval of the Applicant's proposed amendment to the C.D. Rate Schedule of the Applicant's tariff providing for the inclusion of a developmental pricing provision, is hereby denied.

4. The approval of the Applicant's proposed amendment to Section IV, Point of Delivery, paragraph 2 of the General Terms and Conditions of its tariff, providing for the waiver of payment of sales meter charges during the first three contract years following the date of completion of facilities, is hereby denied.

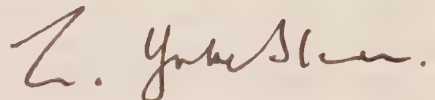
AND IT IS FURTHER ORDERED THAT:

5. The Applicant shall forthwith file with the Board and serve upon all parties to the hearing of this application new tariffs and tolls conforming with this Order including revised wording of Sheet 20 of the General Terms and Conditions of its tariff to reflect the Board's decision on the extension of the Eastern Delivery Area as set forth in paragraph 2 herein and revised maps for inclusion in the tariff delineating the delivery points in the extended Eastern Delivery Area.

6. Notwithstanding the filing of the new tariffs and tolls, the same shall remain suspended and be of no effect until the 1st day of August, 1982.

7. Those provisions of the Applicant's tariffs and tolls or any portions thereof, which are contrary to any provisions of the National Energy Board Act, or to any Order of the Board, including this Order, are hereby disallowed, such disallowance to be effective on the 31st day of July, 1982.

NATIONAL ENERGY BOARD



G. Yorke Slader
Secretary

SCHEDULE A

TRANSCANADA PIPELINES LIMITED

TOLLS FOR CANADIAN SALES, TRANSPORTATION & T-SERVICE

EFFECTIVE: 1 AUGUST 1982

<u>Particulars</u>	<u>Schedule</u>	<u>Transportation Demand Toll (\$/10³m³/mo.)</u>	<u>Transportation Commodity Toll (\$/10³m³)</u>
<u>Sales Service</u>			
Saskatchewan Zone	CD	128.41	1.669
	AOI	—	6.339
	SGS	—	12.223
	PS	—	80.140
	TWS	—	34.960
Manitoba Zone	CD	225.09	3.045
	AOI	—	12.179
	PS	—	80.140
	TWS	—	34.960
Western Zone	CD	371.59	4.992
	AOI	—	18.827
	PS	—	80.140
	TWS	—	34.960
Northern Zone	CD	573.83	7.678
	AOI-NDA*	—	32.124
	AOI-SSMDA**	—	27.147
	PS	—	80.140
	TWS	—	40.250
Eastern Zone	CD	712.72	9.760
	AOI	—	33.024
	AOI (1)	—	33.192
	ACQ	—	28.992
	PS	—	108.380
	TWS	—	42.020
<u>T-Service</u>			
<u>Gaz Métropolitain, inc.</u>			
(Fuel Ratio - .0738)		712.72	1.580
<u>Transportation Service</u>			
<u>Saskatchewan Power Corporation</u>			
Bayhurst & Liebenthal		91.71	1.181
Success		69.31	0.885
Empress		102.09	1.319
Herbert		20.11	0.339
<u>Consolidated Natural Gas</u>			
Herbert		205.06	2.787
Empress		251.64	3.404
ProGas		251.64	3.404
Sulpetro		755.84	9.931

*Northern Delivery Area

**Sault Ste Marie Delivery Area

(1) For gas sold off the Trans Québec & Maritimes Pipelines Inc. pipeline

ORDER NO. TG-3-82

IN THE MATTER OF the National Energy Board Act
and the Regulations made thereunder; and

IN THE MATTER OF an application by TransCanada
PipeLines Limited (hereinafter called "the
Applicant") for certain Orders respecting tariffs
and tolls pursuant to Sections 50 and 53 of the
National Energy Board Act, filed with the Board
under File No. 1562-T1-15.

BEFORE:

J.R. Hardie)	
Presiding Member)	
	)	on Thursday, the 15th day
R.F. Brooks)	
Member	)	of July, 1982
)	
J.L. Trudel)	
Member)	

UPON an application by the Applicant dated the 25th day
of January, 1982, as amended by an Application dated the 16th day
of April, 1982, inter alia, for orders under sections 50 and 53
of the National Energy Board Act fixing the just and reasonable tolls
the Applicant may charge for or in respect of transportation of
gas sold by the Applicant, and for transportation services rendered
for Saskatchewan Power Corporation, Consolidated Natural Gas Limited,
Gaz Métropolitain, inc., ProGas Limited, and Sulpetro Limited, and
disallowing any existing tariffs or tolls or portions thereof that
are inconsistent with the just and reasonable tolls so fixed,
effective the 1st day of August, 1982;

AND UPON the Applicant having requested

- (a) an order for accounting and rate-making purposes which would allow the inclusion in the Applicant's deferral clause for "Transmission by Others" of the differences between (i) the actual charges included in the Applicant's cost of service under the Account "Transmission by Others" in respect of the Trans Québec & Maritimes Pipeline Inc. (hereinafter called "TQM") facilities less fixed charge revenues received in respect of sales by the Applicant to TQM for resale and (ii) the projected charges for "Transmission by Others" in respect of TQM less the fixed costs allocated to TQM sales together with carrying charges, computed monthly at an annual interest rate equal to the authorized rate of return on rate base, upon the balance in the account at the end of the month, with the balance in the deferral account, including carrying charges, to be amortized from time to time through adjustment in future tolls; and
- (b) an order for accounting and rate-making purposes which would allow the inclusion in the present deferral clause of the difference between (i) the Applicant's actual excise taxes payable in respect of gas usage on the Applicant's system, and (ii) the excise taxes allowed by the Board in its determination of the tolls in effect during the test period in respect of gas usage on the

Applicant's system, together with carrying charges computed monthly at an annual interest rate equal to the prime rates of the Canadian Imperial Bank of Commerce and the Royal Bank of Canada in effect from time to time during the test year, upon the balance in the account at the end of the month, with the balance in the deferral account, including carrying charges, to be amortized from time to time through adjustments in future tolls.

AND UPON the Board having included in its determination of the Applicant's cost of service a provision for the amount deferred, including carrying charges, in respect of TQM as of the 31st day of July, 1982;

AND UPON the Board having included in its determination of the Applicant's cost of service a provision in respect of the excise taxes deferred from the 1st day of January, 1982 to the 1st day of August, 1982, together with carrying charges;

AND UPON the Board by Order No. RH-3-82 having directed the Applicant to address the issue of whether the continued use of the normalized method of calculating the allowance for income tax in the Applicant's tolls is warranted in light of the present circumstances relating to the supply, marketing and pricing of natural gas;

AND UPON the Board having heard the evidence and submissions relating to the said application at a hearing commencing on the 11th day of May, 1982;

AND UPON the Board, by Order No. TG-2-82 dated the 15th day of July, 1982, having ordered the Applicant to file, in respect of the transportation of gas sold by it and in respect of its T-Service and Transportation service, new tariffs and tolls conforming therewith, to be effective the 1st day of August, 1982;

IT IS ORDERED THAT:

1. The Applicant shall, effective the 1st day of August, 1982, record in the deferral account "Transmission by Others", (i) the differences between the estimated costs included in the Applicant's cost of service under the Account "Transmission by Others" in respect of the TQM facilities and the actual amount of such transmission charges and (ii) the differences between the estimated fixed charge revenues for the CD demand volumes as shown in Column (b) of Exhibit No. 95 Final Revision and the actual amount of such revenues, together with carrying charges on the month-end balance in the deferral account calculated at a rate equal to one-twelfth of the authorized annual rate of return on rate base and shall submit the balance in said account for disposal by the Board in subsequent toll proceedings;
2. The deferral mechanism with respect to tolls charged by TQM authorized pursuant to Board Order TG-4-81, as amended, is disallowed, effective the 31st day of July, 1982.

3. The Applicant shall, for accounting purposes, amortize the estimated balance in the deferral account "Transmission by Others" in respect of TQM as at the 31st day of July, 1982, namely \$9,122,342, in equal monthly instalments over the 12-month period commencing the 1st day of August, 1982.

4. The Applicant shall record in a separate deferral sub-account of "Transmission by Others" in respect of TQM the difference between the \$9,122,342 referred to in paragraph 3 and the actual amount recorded in that deferral account up to the 31st day of July, 1982, together with carrying charges on the month-end balance in the deferral sub-account calculated at a rate equal to one-twelfth of the authorized annual rate of return on rate base and shall submit the balance in said sub-account for disposal by the Board in subsequent toll proceedings.

IT IS FURTHER ORDERED THAT:

5. The Applicant shall, effective the 1st day of August, 1982 record in a deferral account for the Natural Gas and Gas Liquids Tax and Special Canadian Ownership Tax (hereinafter called "excise taxes") each month the difference between (i) the excise taxes actually paid in respect of gas usage on the Applicant's system and (ii) excise taxes allowed by the Board in its determination of the tolls in effect during the test period, to the extent that such variances result from changes in the excise tax rate, together with carrying charges on the month-end balance in the deferral account calculated at a rate equal to one-twelfth of the authorized annual

rate of return on rate base, and shall submit the balance in said account for disposal by the Board in subsequent toll proceedings.

6. The Applicant shall, for accounting purposes amortize the estimated balance in the deferral account for excise taxes as at the 31st day of July, 1982, namely \$1,280,863, in equal monthly instalments over the twelve-month period commencing the 1st day of August, 1982.

7. The Applicant shall record in a separate deferral sub-account for excise taxes, the difference between the \$1,280,863 referred to in paragraph 6 and the actual amount recorded in that deferral account up to the 31st day of July, 1982, together with carrying charges on the month-end balance in the deferral sub-account calculated at a rate equal to one-twelfth of the authorized annual rate of return on rate base and shall submit the balance in said sub-account for disposal by the Board in subsequent toll proceedings.

IT IS FURTHER ORDERED THAT:

8. The Applicant shall, effective the 1st day of August, 1982, adopt the flow-through method of accounting for income taxes for both accounting and toll purposes, as specified in the Reasons for Decision dated July 1982.

NATIONAL ENERGY BOARD



G. Yorke Slader
Secretary

TRANSCANADA PIPELINES LIMITED

Comparison of Components of Rate of Return
Previously Authorized, Applied For and Approved

	Previously Authorized			Applied For			Authorized In This Decision		
	Capital Structure %	Cost Rate	Cost Component	Capital Structure %	Cost Rate	Cost Component	Capital Structure %	Cost Rate	Cost Component
Funded Debt	56.73	11.09	6.28	60.63	13.65	8.28	60.31	13.65	8.23
Unfunded (Prefunded) Debt	5.63	16.50	.93	(3.71)	13.65	(.51)	(1.32)	13.65	(.18)
Total Debt Capital	62.36	11.56	7.21	56.92	13.65	7.77	58.99	13.65	8.05
Preferred Share Capital	7.64	9.17	.70	13.08	10.39	1.36	13.01	10.39	1.35
Common Equity	30.00	15.75	4.72	30.00	17.25	5.18	28.00	16.00	4.48
	100.00			100.00			100.00		
Overall Rate of Return			12.63			14.31			13.88

**WEIGHTED AVERAGE COST OF DEBT CAPITAL
FOR THE YEAR ENDING JULY 31, 1983**

(\$000)

	AVERAGE PRINCIPAL OUTSTANDING (GROSS PROCEEDS)	NET PROCEEDS PERCENTAGE	AVERAGE PRINCIPAL OUTSTANDING (NET PROCEEDS)	FINANCIAL CHARGES	COST RATE
FIRST MORTGAGE PIPE LINE BONDS					
6-1/4% due 1983 (U.S.)	4,553	98.98	4,507	325	
6-3/4% due 1983	2,030	98.80	2,006	137	
5-5/8% due 1985 (U.S.)	6,996	99.01	6,927	449	
7-1/8% due 1987 (U.S.)	37,401	95.51	35,722	3,042	
9-1/4% Series A due 1992	54,366	98.20	53,387	5,029	
9-1/4% Series B due 1992	22,511	98.20	22,106	2,082	
8-7/8% Series A due 1993	38,307	97.46	37,334	3,400	
8-7/8% Series B due 1993	6,102	97.50	5,949	542	
16% due 1996 (U.S.)	482,798	99.29	479,370	78,909	
16-3/4% due 1997 (U.S.)	140,769	99.17	141,785	23,772	
16-1/2% due 2007 (Sterling)	54,689	96.82	52,950	9,075	
	<u>850,522</u>		<u>842,043</u>	<u>126,762</u>	15.05%
SINKING FUND DEBENTURES					
10% Series A due 1990	28,784	97.26	27,995	2,878	
9-3/4% Series B due 1990	35,433	95.37	33,792	3,455	
9% Series C due 1991	30,223	97.49	29,464	2,720	
8-7/8% Series D due 1992	68,313	97.84	66,837	6,063	
9% Series E due 1993	71,991	97.32	70,062	6,479	
11-1/2% Series F due 1995	41,504	97.19	40,338	4,773	
9.60% Series G due 1997	62,963	97.92	61,653	6,044	
18% Series H due 1996	75,000	99.09	74,318	13,500	
	<u>414,211</u>		<u>404,459</u>	<u>45,912</u>	11.35%
EURODOLLAR NOTES					
17.75% Notes, due 1988 (U.S.)	89,963	97.67	87,863	16,374	
16.00% Notes, due 1989 (U.S.)	118,070	97.70	115,353	19,680	
16.00% Notes, due 1992 (U.S.)	121,700	97.76	118,973	19,680	
	<u>329,733</u>		<u>322,189</u>	<u>55,734</u>	
SUBORDINATED DEBENTURES					
5.85% due 1987	28,664	95.40	27,345	1,677	
5.60% due 1987 (U.S.)	10,535	95.38	10,048	755	
	<u>39,199</u>		<u>37,393</u>	<u>2,432</u>	6.50%
	<u>1,633,665</u>		<u>1,606,084</u>	<u>230,840</u>	
Amortization of Debt Discount & Expense				2,489	
Gain on Sinking Fund Redemptions				(16,217)	
Bond Premium Adjustment				(448)	
Foreign Exchange Loss				2,593	
TOTAL FUNDED DEBT	<u>1,633,665</u>		<u>1,606,084</u>	<u>219,257</u>	13.65%

TRANSCANADA PIPELINES LIMITED

Functional Distribution and Classification of Authorized Cost of Service

APPENDIX VI

	<u>Total</u>	<u>Cost of Gas</u>	<u>Miscellaneous Transmission</u>	<u>Metering</u>	<u>Fixed</u>	<u>Transmission</u>		
						<u>Fuel & Uses</u>	<u>Other</u>	<u>U. Losses</u>
Cost of Gas Sold	\$2 525 147 547	\$2 525 147 547						
Transmission by Others	140 506 126		\$135 917		\$80 677 137	\$ 38 444 199	\$21 248 873	
Operation and Maintenance	304 550 229			\$4 083 877	99 163 822	177 681 726	18 092 577	\$5 518 227
Depreciation	89 880 821			900 729	88 980 092			
Taxes Other Than Income	27 360 913			105 355	27 255 558			
Miscellaneous Deferred Items	(7 910 517)				(7 910 517)			
Income Taxes	58 581 567			545 334	58 036 233		(5 161 466)	
Other Operating Income	(5 260 676)				(99 210)			
Return @ 13.88%	329 711 789			3 068 898	326 642 891			
Total Cost of Service	\$3 462 567 799	\$2 525 147 547	\$135 917	\$8 714 193	\$672 746 006	\$216 125 925	\$34 179 984	\$5 518 227
Miscellaneous Revenue	(7 642 220)	(2 109 495)	(981)	(168 747)	(3 839 838)	(1 032 532)	(490 627)	
NET COST OF SERVICE	\$3 454 925 579	\$2 523 038 052	\$134 936	\$8 545 446	\$668 906 168	\$215 093 393	\$33 689 357	\$5 518 227

